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OVERSIGHT HEARING ON FEMA FLOOD INSURANCE PROGRAM

HEARING

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

NINETY-EIGHTH SESSION

SECOND SESSION

SPECIAL HEARING

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OVERSIGHT HEARING ON FEMA FLOOD INSURANCE PROGRAM

MONDAY, JULY 16, 1984

U.S. SENATE,
SUBCOMMITTEE ON HUD–INDEPENDENT AGENCIES,
COMMITTEE ON APPROPRIATIONS,
Prestonsburg, KY.

The hearing was held at 9:30 a.m. in Pike Technology Auditorium, Prestonsburg Community College, Prestonsburg, KY, Hon. Walter D. Huddleston presiding.

Present: Senator Huddleston.

FEDERAL EMERGENCY MANAGEMENT AGENCY

FEDERAL INSURANCE ADMINISTRATION

STATEMENT OF DONALD L. COLLINS, ASSISTANT ADMINISTRATOR

ACCOMPANIED BY JOHN ZOCH, FEDERAL INSURANCE ADMINISTRATION, DIRECTOR, PROPERTY CLAIMS DIVISION.

Senator HUDDLESTON. Good morning, everyone. The audience is so quiet and orderly I don't have to call this group to order.

First, let me welcome all of you here today. I appreciate those of you who have come from some distance to participate in this hearing and to testify and give us the benefit of your knowledge and experience.

Second, I want to recognize and express our appreciation to Gen. Billy Wellman, the adjutant general of the State of Kentucky, who is here. He's not going to testify, but we all know that his organization plays a key role in all of the disasters and emergencies that we have in Kentucky, rendering service directly to those who are affected, both individuals and communities throughout the State.

As a matter of fact, I doubt seriously if I would have been here this morning if it hadn't been for General Wellman and his interest in our transportation. With the weather being somewhat iffy throughout the morning, I feel we were quite fortunate in order to get here in time for the hearing.

General, stand up and let us see you. Take a bow. You don't get much attention here and you should get a lot more than you do.

I think we all know that we're holding an oversight hearing today on the Flood Insurance Program. The Senate Appropriations Subcommit-

tee on HUD and Independent Agencies has jurisdiction over the funding for the Flood Insurance Program, and Senator Jake Garn of Utah, the chairman of the subcommittee, was kind enough to join me in requesting this hearing.

In early May, eastern Kentucky was ravaged by floods. Immediately thereafter those holding policies under the Flood Insurance Program sought to file their claims. A number of those claims were handled expeditiously and well. With others, difficulties developed. Some of those difficulties have already been brought to our attention.

Apparently, information regarding procedures for filing claims and establishing proof of loss was not widely available.

A sufficient number of adjusters were not present; the assignment of adjusters was somewhat haphazard; the partial payment procedure was not widely used; and there was widespread misunderstanding about coverage, or the lack thereof, for finished basements.

I am certain that other difficulties will be brought to our attention today.

Our hearing, therefore, is designed to examine why these problems develop, to resolve any which persist, and to try to prevent their occurrence in the future.

The Flood Insurance Program has provided protection that was not previously available. The concept is good. But, it can be improved, and we will be looking for ways to accomplish that.

I believe that Dave Adkisson from Senator Ford's office is here, and I will ask him for any comments that he might wish to make on behalf of Senator Ford.

Then we'll turn to our first witness who will be Mr. Donald L. Collins, the Assistant Administrator of the Office of Insurance Policy Analysis and Technical Services, Federal Insurance Administration, Federal Emergency Management Agency.

Now, anybody that has to carry a title like that around with him is handicapped from the beginning, but we're delighted to have him and the other officials of the program with us this morning, and I'm certain that we're going to get a good understanding of how the program operates and where the problems might be.

Let me call first, then, on Mr. Adkisson, representing Senator Ford, for comment he may have at this point.

STATEMENT OF DAVE ADKISSON, REPRESENTING SENATOR WENDELL FORD

Mr. ADKISSON. Thank you, Senator Huddleston. I'm Dave Adkisson, representing Senator Wendell Ford.

On behalf of Senator Ford, I would like to thank you for the opportunity to be in Prestonsburg this morning and to participate in this effort to improve relationships between eastern Kentucky and the Federal Government in the area of disaster relief.

The residents of eastern Kentucky have much too often been faced with the devastating effects of disastrous flooding. Flood waters have numerous times swept this region, taking lives, homes, businesses, and a

lifetime of work, leaving residents homeless, without food or clothing, and with the burden of cleaning up the aftermath.

This past May we saw flooding take the lives of five individuals. Six people were injured and damages were estimated at over $11.5 million, and this figure did not include the damage to farms and agriculture.

When such disasters occur, the Federal Government steps in, along with the State and local governments, pursuant to congressional authority, and assists the victims in recovering from the disaster.

The Federal Government has many times supplied such assistance. They have provided shelter and homes for the homeless, low-interest rate loans and grants to those who lost everything, and other forms of assistance to try and alleviate some of the hardships.

This past May over 20 counties were declared disaster areas, which entitled them to Federal assistance. However, the problem we are presently concerned with is the administering of such Federal assistance.

Complaints have come from both individuals applying for assistance and State and local agencies responsible for helping administer such assistance.

FEMA seems to be experiencing problems in several administrative areas. First, there has been a distinctive problem in coordinating efforts between the FEMA national office and its regional offices.

During a disaster, coordination is of the utmost importance so that relief and assistance may be expedited.

Another complaint has been in relation to the length of time it takes to get officials into the area to assess damages after the disaster has occurred.

In order to properly evaluate the damage caused by flooding and return the area residents to their normal lives, the FEMA officials should be in the affected region immediately after the water recedes.

However, often the officials are brought in from out of State to fill out forms which could more swiftly be completed by local agencies. Furthermore, the out-of-State inspectors must be familiarized with the area. This also takes time.

One of the main problems with Federal disaster assistance is the length of time between filling out the application and receiving assistance.

Flood insurance claims must be processed by FEMA at a much faster pace than we have recently experienced. We hope that this hearing today will uncover the origins of the problems which eastern Kentucky has been faced with involving Federal assistance and lead to a better understanding of how to correct those problems.

After being subjected to the turmoils of a flood disaster, the last thing the residents need to be subjected to is the turmoil of unnecessary problems with Federal assistance.

We would hope that eastern Kentucky would never again see the horrors created by disastrous flooding, but if such an event should recur, then hopefully today's effort will be instrumental in alleviating the unnecessary problems involved in assisting those who are affected.

Senator Ford stands ready and willing to help FEMA, SBA, and HUD to have a more effective relief program and, more importantly, to help the people of eastern Kentucky.

Thank you, Senator.

Senator HUDDLESTON. Thank you, Mr. Adkisson. I don't believe there's anyone here representing Congressman Perkins, but all of us know his total interest and efforts in regard to the flood relief situation in eastern Kentucky.

Let me remind you again that this is an official hearing of an Appropriations subcommittee of the U.S. Senate, dealing with HUD and independent agencies. All testimony is recorded. A rendition will be made of this hearing and be available for other members of the committee and other Members of the Senate or anyone else who may be interested in seeing the information that's presented.

So whether or not you have an oral statement or a written statement, it will be included. If this hearing is like nearly every other one that I've participated in the 12 years I've been in the Senate, there won't be enough time to take everything that everybody wants to say at this particular morning session.

So I would remind you that you can make written statements for the record. The record will remain open for some period of time to give you an opportunity to do that if we're not able this morning to include all of your statements in the record.

Of course, I don't think I need to remind you that brevity is highly desirable, so we'd like to hear from as many people as we possibly can.

Now, we've asked Mr. Collins, whom I introduced a moment ago, to be our next witness, Donald L. Collins, the Assistant Administrator of the Office of Insurance Policy Analysis and Technical Service. He'll be accompanied by Mr. Zoch, whom he will introduce.

We've asked him to be very thorough in giving us a rundown of precisely where we are in the program, what difficulties developed, as he saw them, how they attempted to meet those difficulties, and the degree to which, in succeeding weeks, they've been able to iron out some of the problems and process the claims and issue the checks.

Mr. Collins, if you are ready to come up, we'll begin with you and Mr. Zoch.

MR. COLLINS' OPENING REMARKS

Mr. COLLINS. Thank you very much, Senator, for inviting us here, and I bring greetings from Louis O. Giuffrida, who is the Director of the Federal Emergency Management Agency, as well as Jeffrey Bragg, who is the Administrator of the Federal Insurance Administration. He is my boss. I report directly to Mr. Bragg.

I will certainly not repeat my title. My name is Don Collins, as the Senator said. With me is John Zoch, who is the Federal Insurance Administration's Director of Claims.

Prior to these severe floods of May 7 through May 9 in eastern Kentucky, the NFIP, which is the National Flood Insurance Program, had, since January 1, 1978, paid out $13,831,041 in Kentucky in settling

some 2,879 flood insurance claims. Our average claim payment before this recent disaster was $4,804.

My job as Assistant Administrator of the Office of Insurance Policy Analysis and Technical Services involves general policy oversight of claims and underwriting.

The gentleman with me, Mr. Zoch, as I said, is our Director of Claims, and the program, as you know, is serviced through a servicing agent under a contractual arrangement with the Federal Government, with the agent being located in Lanham, MD.

I thought as background it might be worthwhile to discuss some of the positive steps taken by the Administrator since 1981 to facilitate the claims operations of this program. Following this, I would like to discuss some of the problems that we found in the Flood Insurance Claim Office [FICO] in Pikeville and elaborate on some of the steps we took to maintain what we believe is a level of service commensurate with that that we have maintained in other FICO storm center operations.

POSITIVE PROGRAM IMPROVEMENTS BY ADMINISTRATOR SINCE 1981

To begin the background, I would like to note that for the first time in the history of the program the Administrator established performance standards for the contractor in carrying out its work on behalf of the Federal Government and the taxpayer.

As to claims, these standards require payments to be dispatched, that is, checks to be mailed, within 10 days of receipt of a proof of loss from the insured, and that claims generally be closed on the average of within 45 days of receipt of a proof of loss.

In this connection, I would like to offer an exhibit to this hearing, and, Senator, I ask that my exhibits be made a part of the record.

Senator HUDDLESTON. Without objection they will be.

Mr. COLLINS. Thank you, sir. I will label this exhibit 1. This is a statistical tabulation showing that the contract standard of 45 days for average closure has been met in June, in terms of 18.5 days. Now, this excludes outgoing time in the mail room, so we might have to add a day for that.

[CLERK'S NOTE: All exhibits are being kept on file by the subcommittee.]

Senator HUDDLESTON. That is an average time.

Mr. COLLINS. Yes, sir, and the contractual standard is 45 days.

The second part of this exhibit shows that, in terms of issuing a check within 10 days of receipt of a proof of loss, they were averaging in April 10.1 days, in May 10.7 days, and 10.7 days in June.

So the proof of loss receipt and the delivery of checks standards are being met, as well.

The other thing I think we should point out at this time is that these standards that we require of our adjusters are very similar, if not equivalent, to those required by major insurance companies in the private sector.

PROGRAM STANDARDS EQUIVALENT TO INSURANCE INDUSTRY STANDARDS

For example, the Aetna Insurance Co.—and I offer an exhibit on this—requires 24-hour contact by their adjusters, which we also require.

It requires that preliminary statements be filed within 15 days, which we require, and that would be exhibit 2. I have, also, an exhibit from the Hartford Insurance Co. with similar reporting requirements, but note where they indicate closing within 90 days of receipt of the claim.

I would also like to put in the record copies of our manuals. We have a FICO manual and a claim adjuster's handbook which also detail these standards. I have them in my bag. I won't pull them out now. I'll give them to you later on.

So we feel that we are performing or setting up standards to perform in the best tradition of the industry.

MORE PROGRAM IMPROVEMENTS BY ADMINISTRATOR

Another thing the Administrator did in May 1982 was to give up the practice of issuing drafts. This is very significant because a draft, as you know, Senator, is not a negotiable instrument. It must be honored at some far-away bank, and sometimes they take literally weeks to clear.

The Administrator felt that was unfair to our policyholders and he decided to issue checks which are negotiable and which could be cleared a whole lot faster and, probably, save the dollar delivery time to the policyholder by that amount of time.

Senator HUDDLESTON. When was that decision made?

Mr. COLLINS. That was done in May 1982, sir. By the way, I visit windstorm pools quite a bit due to hurricane problems, and many of them still issue drafts and many insurance companies still issue drafts. So I think that's a good enhancement.

Another thing the Administrator did to speed the process was establish an on-line claim system. This was installed in the Pikeville FICO. It was first brought out in July 1983 in New Orleans, and this system enables us to input claims activity into the computer, and, most importantly, we can request a check right into the computer.

That check request is then electronically transmitted from the field office FICO up to Lanham, MD. The computer issues the check. They are batch mailed, a whole bunch together, and mailed back down to the FICO by overnigh delivery where our FICO managers then mail them locally.

We've found that this shortens the process of getting the money in the hands of people by several days.

Another thing the Administrator did—and this relates, sir, to partial payments and I'll get more into that later. He amended the policy back in October 1981. This is the standard flood insurance policy which I would offer for the record.

He amended it to state, in the section entitled "Procedures in Case of a Flood," and I'll quote that:

> The policyholder should discuss with the adjuster any need you may have for an advance or partial payment of your loss.

Incidentally, sir, these instructions are also in our adjuster's handbook which adjusters get at seminars and which is mailed to adjusters.

The next thing I'd like to talk about is that, about 1½ years ago, a backup claims examining force was garnered by the Administrator from the private sector.

The reason we need backup claims examiners is this: The National Flood Insurance Program is a somewhat lean Federal program. The servicing agent only has approximately 80 people in its entire claims office and, of these, the claims examining force is comprised of about 28 people. So you can see why we have to augment staff by hiring contractual help, people from the private sector. We hire insurance industry experts.

I have here an exhibit detailing the whole setup of the claims administration. It totals 83 people. I'm not sure all positions are filled. I believe we have about 80 filled at the moment.

Now, in FIA, we have about 50 people involved in insurance operations. My particular office, and as I said earlier, I have claims and underwriting under my wing, has about 15 or 16 people in it, among whom are 3 or 4 claims examiners and the Director of Claims, Mr. Zoch, all of whom have extensive private-sector experience.

Mr. Zoch is only with the Government about a half dozen years, but he brought an awful lot of learning and experience to the job, and we're very glad we have him.

Another thing, although not germane to Pikeville, the Administrator is engaged in what we call a Single Adjuster Program where we enter into arrangement with windpools to share adjusters at times of losses, and that speeds up the process considerably.

MORE PROGRAM IMPROVEMENTS BY ADMINISTRATOR

In Hurricane Alicia, back in Houston last summer, we never had enough adjusters to go around to serve the industry and the NFIP. The industry had received something like 260,000 claims itself, not counting the NFIP's 16,000.

Another thing the Administrator has done—and I think this will really help in the future—is activate a Write-Your-Own Program with private-sector insurance companies, whereby these companies are allowed to issue the Federal flood insurance policy and to use their own adjusterS in adjusting flood claims.

We already have about 65,000 policies under the Write-Your-Own Program. We have 48 companies engaged in it and the Administrator has solicited more companies for next year.

We think this is going to be a big benefit because, after floods there would be company staff adjusters to help out, too.

Last September, another thing the Administrator did, was upgrade our automated claim system to allow us to track or monitor daily, by tabulations, the closing rates, the rate at which the claims, which are assigned to adjusters, are closed.

So when adjusters are slow to close claims or they're overloaded, we send our general adjusters out and monitor the situation, and we then require that the cases be either reassigned or that the adjusters speed up their work.

We have been doing this all along and in the Pikeville situation. I have here a statistical exhibit. This is a computerized exhibit numbered 3025—excuse me, this is not 3025. This exhibit is the "Tabulation of FICO Losses by Week for Adjuster Firm." We shall put it in the record, and you can see by week how we track our firms.

This particular firm received one case the week of May 19. The week of May 26 it had 54 cases, and the week of July 7 it was 90 percent closed. The firm had closed 54 cases. So they did a pretty good job.

Another thing the Administrator did on May 1, 1984, before this flood even occurred here, was authorize the contractor to issue checks to policyholders where the policyholder had replacement cost coverage, even though the policyholder may not have completed repairs.

Now, this is a considerable thing because in the private sector under replacement cost coverage, normally a company will wait until full repairs are made before they pay replacement cost.

Replacement cost, as you know, sir, is what it costs to replace the property at the time of loss without any allowance for depreciation.

So the Administrator has made that judgment and I think that, too, has helped get money into the hands of our policyholders.

All these enhancements were in opertation in the Pikeville office.

PROBLEMS AND GENERAL BACKGROUND WHEN SETTING UP PIKESVILLE OFFICE

Now, some of the problems that we encountered in setting up the office can best be seen, I think, against the background of what we were doing at that time.

At that time we had three FICO's elsewhere in the country in high gear. We had one at Ocean City, NJ, involving 5,200 claims. We had another in Wayne, NJ, involving 2,700 claims. We had a third in Hicksville, NY, involving 2,000 claims.

I have here an exhibit that shows—well, let me develop this just a little bit more. At that time we had some 400 adjusters committed to our work and, of course, it placed critical demands on program staff resources, as well. We had 13 examiners, 4 managers, and 8 general adjusters already in the field, and, remember, we only have 28 examiners.

In addition, the case load of all the pending cases in Lanham amounted to some 5,000 claims. I have here, and you can examine this at length, a staff distribution. This exhibit is titled "National Flood Insurance Program Claims Staff Distribution," May 5 through July 6, and you can see where our examiners were and what they were doing and how busy they were, sir.

Senator HUDDLESTON. It will be made a part of the record.

Mr. COLLINS. Yes, sir. I would ask that all exhibits be placed in the record.

The next thing I have here for you is a graph called "Major Flood Disasters, Spring, Summer 1984," which essentially shows the same thing that is in the last exhibit but, maybe, presents a quicker snapshot of it for you, looking at a graph format.

Shortly thereafter, we established two more FICO's, one in Tulsa, OK, and another in Middlesex, CT, so that, immediately following the prime time of establishing the Pikeville operation and for a few weeks at a time thereafter, this program was operating a previously unheard of five and six storm centers.

Nevertheless, as I think our later exhibits will show, the Pikeville FICO performed as well or better than any of the others.

This is really unique, the operation of three and four, or multiples, at the same time. For example, only twice since 1978 have we had four open at the same time. That was in 1979, in April and in 1979, in July.

Only twice have we had three FICO's open at the same time and that was in September 1980 and in April 1982. This year we've already had seven. As I said, we've had five or six open at the same time.

We have conducted 78 field FICO operations since 1978.

NFIP PAYS BASED ON INSURANCE CONTRACT, IS NOT FEDERAL ASSISTANCE

Now, upon opening the FICO following the flooding of May 7 through May 9, I would be remiss if I didn't acknowledge right here and now that, although not a problem in the past, more could have been done about the program from the standpoint of public relations to explain our business and to mitigate, perhaps, some unreasonable expectations on how quickly claims can be paid.

Judging from the newspaper accounts I have read, it seems to be a perception that claims adjusters' visits and subsequent payments should occur much quicker than they did, and I can't resist the feeling that the program, the insurance program, might be perceived in the minds of some as an assistance program rather than as an insurance company, which is what we are.

In the future we're going to make sure that policyholders realize that the National Flood Insurance Program involves an insurance contract and that an application for monetary assistance is not enough upon which to predicate the loss payment. Thus, like any fire or windstorm insurer, an adjuster investigation, verification of damages and supporting documentation by the policyholder, coverage investigation and verification, and claims examination all must precede the adjustment of the loss.

Also, the adjusters we employ must investigate subrogation possibilities, account for salvage and the like. We will try to tell this story better in the future.

OFFICE SETUP

Now, on opening a FICO, we monitor the widespread flooding versus policy counts in a number of counties in an effort to determine the best place to set up operations.

On May 9 FIA directed that a control team be sent to the area. It arrived that day and established a control office in the Best Western from which, commencing May 11, losses were actually being assigned to those adjusters who had shown up.

During the period May 12 through May 16, some 120 adjusters had signed up, phones and CRTs were installed, and a first adjuster's meeting was held at the Holiday Inn.

PRIVATE INSURANCE INDUSTRY STORM ACTIVITY AT THE TIME

It should be noted that at that time there was considerable tornado and windstorm activity in the Nation and many independent claims adjusters were engaged by private-sector insurers whose catastrophe losses for the year to June 1 amounted to $930 million of tornado and windstorm losses.

I have figures from the industry which show $126 million of losses for the first quarter of last year as opposed to this year when they incurred $325 million. During the second quarter of last year they had $388 million of losses, and so far in the second quarter of this year industry losses went up to $995 million. They've had a lot of activity, and these events this year involve 24 States and dispersed adjusters all across the country. It was during this time that we were opening our FICO. I have an exhibit here showing information from the American Insurance Association Property Claim Services, and it indicates the States that were involved and the number of catastrophes; also, an article from the National Underwriter, which is an industry newspaper, showing Midwest damage through June 7 and 8 of $60 million, involving maybe eight more States; and an article from the Insurance Information Institute Federal Insurance Overview indicating the same results. I'll put these in the record and you can read them when you have the opportunity.

ADJUSTER AVAILABILITY

Adjuster availability, as we know, is a critical issue. There are only three to six NFIP approved adjusters in the Pikeville area. We wish there were more.

While we have some 400 NFIP adjusters who will travel out of State depending on the work load, economic considerations and location of the disaster, these adjusters are not federally employed nor are they federally controlled. They are independent contractors who generally work for the private-sector insurers and they stay where their own offices are located. We have no adjusters to send into an area. We allow those who do show up to carry an inventory of approximately 30 files.

SPECIAL LOCALE PROBLEMS

There were some special problems at the outset which impaired the startup, and I'll discuss these briefly; we're well aware of them. There was a major coal convention in town which made space very difficult to come by in hotels and other accommodations for adjusters.

In addition, we had to hire temporary office personnel from Ashland, over 100 miles from the Pikeville office. The terrain, while beautiful—I really admired it coming here yesterday—is very rugged and it makes travel to locations of risks very time consuming.

Our people found that many of the loss reports gave general delivery addresses and that, generally, the insureds were scattered through mountainous areas with street names or route numbers not being available. Some adjusters were overloaded with work and files had to be reassigned.

EARLY, HEAVY WORKLOAD

This is significant, the overload. We did a summary of claim notice volumes for the first 4 weeks to see how the work came in, and one of your local agents noted in the paper with a great deal of perception that they were coming in at an alarming rate. The gentleman was right.

This "Summary of Claim Notice Volumes," exhibit shows that historically, at the second week of our FICO operation, and I'm including other FICO's here when I use—I should make this clear—when I'm using this historic exhibit as the basis for comparison with Pikeville, I'm including our Tulsa FICO, our Middlesex FICO, the two in New Jersey, the one in Hicksville, one in New Orleans, and the Alicia FICO in Houston that we had last year.

The historical average showed 56 percent of the claim notices coming into those FICO's at the end of week two. In the Pikeville FICO, it was 70 percent and, obviously, that creates a lot of delay and confusion as you're trying to handle a great deal more paper and notices of claim in this one as you would ordinarily handle.

The other things that came up at the time we really learned about from looking at the newspapers. We do read the papers and it's a good way to keep up on what's going on. One paper indicated in an article on May 24 that we should have had about 1,000 claims processed.

NFIP PROCESSING STANDARDS WERE MET

Well, I've spoken about our processing standards and the thought occurred to us at FIA, that since May 24 was about 10 to 15 days since we started assigning some losses, we would see how they were doing.

On May 30 we ran that 3025 report which tracks the rate of claim closure and we also found out at that time, in talking to the Pikeville office, that we were processing in Pikeville approximately 1,200 preliminary reports from adjusters.

The 3025 showed that there were in process 800 final reports. That's a total of 2,000 items in process, and at the time the 3025 also showed that we had issued 132 checks to policyholders. We were 5.5 percent closed at that time but we have since made a steady climb and you'll see that, sir. I'll put this tabulation in the record.

In the same article, the program was criticized for being slow to get adjusters into the area and for not sending enough of them to handle claims but, as I indicated, the adjusters are independent contractors.

I have here an exhibit showing the number of registered adjusters in the Pikeville office week by week. This exhibit shows that we had 142 adjusters the week ending May 19, and we held them at a pretty good level to June 2 where we had 132. The week ending June 9 showed 116. They are settling losses now and some of them are leaving the area. Right now we have 98, as of July 6, in the area, and I should point out, sir, that nearly 95 percent of the adjusters were from outside of the Hazard, Pikeville, and Williamson areas. These adjusters we had to call upon to come into the area and help us adjust losses.

While we recognize that errors of judgment produce problems in every operation, including our FICO operations, we recognize, also, that no human being or group of human beings are without flaw.

GOAL IS TO CLOSE FILES RAPIDLY IN ALL FICO'S

Notwithstanding that, our business, as we perceive it, is to get claims payments into the hands of our policyholders and close claims as rapidly as we can, allowing for the correction of errors; and that so long as claims are closed in a given FICO at the same rate of closure as is produced in our other FICO operations, we feel that the FICO is being successfully run.

SPECIAL MANAGEMENT INITIATIVES TO MEET GOAL

To reach this goal we monitor closing results and make adjustments in our operations in every FICO situation, not just Pikeville, so as to keep that steady growth of closings commensurate with production in other catastrophe offices.

We directed the servicing contractor, on May 25, to send two of its general adjusters to local adjusters' offices to stress the need to close files and we also directed that a notice be put in every adjuster's mailbox—they all have a "mailbox" at the FICO, sir—exhorting them to close files and get their reports in.

I have a copy of this notice right here that was placed in the boxes by Mr. Reed and I'll put that in the record.

Another thing we did was ask that the FICO establish a sign at the office, and we did this in the Alicia operation and in every FICO we operate, telling NFIP adjusters to please advise policyholders of the availability of advance claim payments. We are looking for opportunities to make partial payments, and in addition to having it in our adjusters handbook, we posted a sign at the FICO.

Something else we really do want to report, by the way, we personally called the chief executive officers of adjusting firms and asked them to tell their people to speed up their work. I personally called the catastrophe vice president of the largest adjusting firm in the country on May 25 and told him that we needed better closings and quicker closings and they went to it. Others were called by the servicing contractor's claims administrator.

Another thing we did regarding partial payments, we entered into an arrangement with our sister office at FEMA, that's our Disaster Assist-

ance Program, whereby we took on, as partial payments, the payments to some of their minimal repair program applicants under their Temporary Housing Assistance Program.

This gave us an opportunity to help them and at the same time make some partial payments. We made these payments, leaving the technical examining work to be done later on. This, again, was to speed up relief.

I have here the full documentation on that program which I will place in the record at this time.

On May 30 when we had received almost 3,000 claims and had 143 adjusters in the area, 100 of which were serving Kentucky, we directed that either 2 new additional examiners be sent to the FICO or that files be shipped to Lanham for review. Thus, the NFIP has been reviewing files up there.

Then on June 8 we directed that a claim manager be sent to the Pikeville office to take charge and hold a meeting of the adjusters, a second meeting (this was done on June 12); that the practice be firmly established of shipping, air express, excess files with final reports for review at Lanham; and that the Lanham staff in Maryland be put on Saturday duty to review these files. All this was done.

These actions were taken about the time the Lexington paper detailed a number of problems of which we were already aware.

BUSINESS ACTIVITY 30 DAYS AFTER OPENING OFFICE

Our business activity on June 12, a month after the FICO opened, indicates roughly 3,000 Kentucky claims received as against 900 claims closed, for a dollar amount paid of $9 million, at a claims closure rate of approximately 30 percent. In addition, 750 additional final reports had been received, as well as almost 1,900 preliminary reports.

I'm putting the 3025 of June 12 in the record to show that 30 percent closure rate.

REASSIGNMENT OF LOSSES

I'd like to discuss the reassignment of losses situation. I think it would be informative. This comes about when an adjuster is overloaded or not producing, as indicated earlier, and generally follows an audit of files by an NFIP general adjuster.

Files are also reassigned early in the operation of a FICO because, at times, agents who are authorized to assign losses until notified that the FICO has been established often assign too many loses to one firm, and these must be redistributed.

We redistribute losses because we feel that every firm, especially the local firms, should get a fair share of the work and that the large national firms which have considerable adjuster resources should not be overloaded. We keep an eye on that 30-file-per-adjuster running caseload.

Now, the assignment of losses by agents has its good points and its bad points. The bad point, and everyone saw it, was that it leads to some confusion and in the reassignment process some insureds may not be contacted for as much as a few weeks following reassignment.

This is error born of the human condition. Errors are made and when they occur and we discover them, we try to correct them quickly.

The good side of the agent assignment issue is this: Prior to early 1978, agents were not authorized to assign losses. We had some tremendous ice storms along the New England coast that winter, and people were literally standing in ice waiting for adjusters.

The agents had to report their losses to the, then, servicing company in Bethesda, MD. They then had to go back out to New England and find an adjuster to handle the loss.

FIA management at that time felt that quicker service could be provided to the greater number of policyholders by permitting agent assignment until a local FICO could be established to control the assignments, knowing that there would be some disconnects and confusion in the reassignment process.

The point is that the greater good was perceived to be that the vast majority of our policyholders would benefit by the prompt service which agent assignments engender and would lose more if agents were not authoized to make the assignments.

I believe this system, which balances early, prompt service against subsequent redistribution of loss assignments to achieve that fair share of which I spoke, still serves the greater common good of all our policyholders.

I sincerely regret it if any policyholder's file fell off the track, even temporarily, but experience tells us that this is the best way to operate. The servicing agent, by the way, has tightened up its recordkeeping controls and is tracking reassignments a lot more effectively.

PROCEDURES TO PROMOTE PARTIAL PAYMENTS

Getting back to the FICO operation, to affirm the instructions given at the second adjuster meeting of June 12, all adjusters were sent a notice on June 13 reminding them to discuss partial payments with insureds to alleviate financial hardships and to indicate in their preliminary reports that this had been done.

I have a copy of the notice, sir, and I'm putting that in the record. In addition, I have an exhibit labeled "FICO Payment Summary as of July 6, 1984," which tells you in detail how many partials were made. A total of 25 percent of our losses involved partial payments, which is pretty much as good as we have done at any other FICO. Wayne, NJ, inexplicably, had 42 percent; Ocean City had 25 percent; Oklahoma had 29 percent; West Virginia had 16 percent; and so forth.

I suspect that the reason Kentucky's 25 percent of partials was a little lower than Ocean City—rather, Wayne—is that we were closing claims very quickly, making partials unnecessary.

To recount on that, we've done the following things on partial payments: Amended the policy to encourage the insured to ask for an advance payment; wrote in the adjuster's handbook that the adjusters have to encourage partial payments; engaged in a cooperative venture with FEMA's Minimal Repair Program to make partial payments in

conjunction with our sister agency, the disaster assistance folks; hung a sign in the FICO offices with regard to partial payments; and at both meetings of the adjusters, discussed partial payments. I believe there isn't much more we can do in that area.

Senator HUDDLESTON. Are you saying that from the beginning your adjusters themselves initiated the possibility of partial payment or did the claimant have to be aware of the possibility and ask for it themselves?

Mr. COLLINS. That's a good question, sir. It works both ways. It's in the policy and it's in big, bold print. It's right here. Notice to policy——-

Senator HUDDLESTON. It's not in the fine print.

Mr. COLLINS. No, sir, it is not. It really isn't. Let me show you. It's set apart and it says to the insured what to do. "Procedures in Case of a Loss," and it's a whole section that stands out.

Senator HUDDLESTON. All right.

Mr. COLLINS. So, yes, we're asking insureds to, obviously, read the policy and to take advantage. But I don't read all my insurance policies. Folks don't always read the fine print, as you say.

So, to overcome that, in every FICO we operate, we hang that sign above the door which tells the adjusters to advise people of partial payments. We stress it at every adjuster's meeting that we hold.

Senator HUDDLESTON. In the Kentucky case was that done?

Mr. COLLINS. Yes, sir.

Senator HUDDLESTON. Immediately?

Mr. COLLINS. Yes, sir. At the first adjuster's meeting I checked with Mr. Zoch to be sure we checked into that, and it was also done at the second adjuster's meeting; and the sign was hung; and we also engaged in a Minimal Repair Program; and we issued that special notice on June 13 to the adjusters, again, directing partial payments.

We are interested in doing that which is why we take all these steps and I really think that, as our subsequent exhibits will show, we were closing files very quickly in this FICO, and we're not ended yet and we plan to be around for quite a while.

One of the problems, in addition to the reassignment problem, which we discerned internally involved questions of coverage.

JUNE 13 FILE-BY-FILE PURGE

To address the reassignment problem and the coverage questions, our manager in Pikeville at the time, Bill Kennedy, on June 13 conducted a file-by-file purge of every open file in the office to make sure that adjusters had contaced the policyholders, and in conducting this purge, our FICO staff called people, called agents, and called adjusters, to make sure that everyone was in touch.

Of course, we have to recognize that for every policyholder who most regretably is out of contact with the adjustment process, the other side of the coin is that many other policyholders are being served even quicker than they normally would be.

The unfortunate truth about any FICO operation, and something about which we can do nothing, is that someone has to be last.

We would like to serve all our policyholders early and first, but by the very nature of things, it cannot be done. The bottom line, as I indicated earlier, is that we close cases, and we are doing that here as well as anywhere else.

The purge of files did show, for example, that one adjusting firm had some 20 losses removed for reassignment to another firm and that these policyholders had not been contacted recently or even, in some cases, not at all. We got right on that.

HANDLING QUESTIONS OF COVERAGE

Of the coverage issues which came up at this time, some 60 of them involved what we call alpha cases, which are cases where we have the wrong policy number or we have no record of the policy. We have to go through our computer system and search, by name, to find these policyholders. We had about 60 of those. As to some of them, their coverage was not even in effect.

We had about another 130 questions of coverage involving whether or not coverage had lapsed, whether premiums had been paid, and whether in some cases the policies were unintentionally misrated by the insureds. As I said, unintentionally.

This was a problem in the past because the Government, if the person had not paid the right premium, would have to say, "Well, no contract. There's a failure of consideration." However, the Administrator prior to Alicia, had amended the policy to allow the person who made a mistake in how much money he or she paid for the policy, even after a loss has occurred, to reform the policy, by paying the correct premium right from its inception and get the claim paid. Of course, this procedure takes some time but it's a very important benefit.

MORE MANAGEMENT ACTIONS

Another thing we did on June 9 was authorize our servicing contractor to actually use its own general adjusters, who are contract employees, not independent adjusters, to write estimates and adjust losses.

Mr. Zoch made that authorization for us and we have it here, and I will put it in the record.

The following week we directed that three more general adjusters be sent to Pikeville to audit firms and adjust losses and that more examiners be sent as soon as a buildup of files occurred at the FICO office.

At this time, which was approximately June 22, there were only 50 final reports in there awaiting review, so it was important that we get the general adjusters out to beat the bushes to get the reports in from the adjusters.

50 PERCENT OF ALL CASES CLOSED AS OF JUNE 26

As of June 26, the Kentucky claims showed 50 percent closed. Of the coverege issues, 8 percent had been resolved and the remaining policyholders had all been contacted with no more than 100 files still in the office awaiting a first report.

I have our 3025 for June 24 which shows a 48-percent closure rate. We were at 50 percent 2 days later.

DIFFICULTIES WITH THE TELEPHONE SYSTEM

Another internal problem, which was a widespread problem, and this is a tough one, was the telephone problem. In the beginning, one private and two public telephone numbers were installed at the control office, and these did not have rollover capability; that is, the capability of a call being transferred to the next telephone line in a numbered sequence when the actual number called is busy.

This was not of great importance since only two lines were involved. Then on May 21 at the FICO office, four new public numbers were installed in addition to those previously used. Inexplicably, I cannot account for why our folks didn't ask for rollover and why the telephone company didn't offer it. They didn't have it at first. But, in any event, the servicing agent sent its own telecommunication specialist to the FICO, and he configured—I'm not a telephone operator; I'm not an expert—he configured the installation of the six lines in such a way as to allow full rollover between the numbers.

This was achieved with NFIP equipment internal to the FICO. The phones were tested and found to rollover. Two of the numbers assigned by the company, however, did not actually belong to the FICO, but we did begin with phone lines that did rollover.

Unfortunately, Murphy's law, I guess intervened. If anything can work unwell, it will work unwell. We subsequently, because of space constraints in the office, moved some of our furniture and equipment around and we unplugged that phone setup, and our staff did not know—they're not technicians—that by unplugging it they would disconnect the rollover feature. This is what happened.

I guess the sad part of this is that then within the FICO the management presumption was that the call volume wasn't enormously heavy. The public's presumption was that they were dialing in and not getting anywhere; in fact, at FICO the lights weren't flashing nor were the telephones ringing. A very unfortunate set of events.

All lines now work properly and I believe that this was straightened out around mid-June when NFIP dispatched another specialist down there to straighten it out. I would stress, though, that throughout all this when people couldn't get in and our staff didn't know that the phones weren't ringing, the four lines used by the adjusters worked correctly. We had four private lines assigned for the adjusters throughout this time.

So it's important to note that while people could not get through, the service levels were being maintained because the adjusters were able to communicate with the FICO and the FICO staff was able to communicate well with the adjusters.

The 2 inoperable numbers which had been assigned by the telephone company have been replaced and, in all, there are roughly 15 operational lines now dialing into the Pikeville office.

SERVICE LEVELS MAINTAINED DURING TELEPHONE DIFFICULTIES

With these changes and reconfigurations of lines, the situation began to be corrected around June 21 as I said. We regret any inconvenience to the public but believe at least the public came away whole in that the adjusters were able to maintain service levels through communicating with our staff, and I think our claims closing exhibits will bear this out.

SPECIAL NOTICES TO INSUREDS, ADJUSTERS, AGENTS TO QUICKEN SERVICE

In another action to speed up claim processing, we issued a notice to all policyholders, agents, and adjusters, relative to any pending claims, urging all concerned to attend to the submission of proofs of loss by July 7 or as soon thereafter as possible.

That's important to note because insurance contracts require proof of loss to be filed within 60 days, and Jeff Bragg decided that that would be manifestly unfair—and he did this in the Alicia experience as well—and he said, "Now we're going to extend the time for insureds to file their proofs of loss," and that's why the notice went out.

At that time we went to policyholders and agents, and we issued a press release, again assuring insureds they should try to get their work in by July 7 or as soon thereafter as possible. We are still open to receive proofs of loss and no one is shutting the door on claims.

I have these notices and the press release here and I will put them in the record. The notice is dated July 27. I think it went out July 29 and the first press release around July 3. Did I say July? Excuse me, June 27 and June 29—correction—and the press release around July 3.

As I pointed out earlier on this proof of loss issue, the insurance program is based on an insurance contract of rights and duties and terms and conditions, and we would be criticized, ordinarily, perhaps by the GAO, for not requiring policyholders to comply with the terms of the contract.

CONTRACTUAL PROVISIONS WAIVED TO SPEED UP SERVICE

Jeffrey Bragg has authority to waive provisions and he has done so in the case of proof of loss.

At the town meeting this afternoon, by the way, there will be some people who are beyond 60 days for filing proof of loss now and we'll try to take down the names of these policyholders and the problems of any folks that show up there to see if we can get action on their settlements.

Now, as I said earlier, we continually monitor the rate of closures as the barometer of whether or not the FICO is performing at a reasonable level. This is routinely done at all FICO's.

JULY 4, CLOSURE RATE AT 64 PERCENT

We note that FICO 512, which is for the Kentucky claims, on July 2 reflected 2,029 closed Kentucky files for a 59.4-percent closure rate. Two days later the rate was at 64 percent, and the rate overall, including the West Virginia files, was at 62 percent.

I have here our 3025 for July 3. It shows a 63.8-percent closing rate for Kentucky files, and I have the 3025 for July 8 which shows a 73-percent closure rate for Kentucky files.

ADDITIONAL MANAGEMENT INITIATIVES TO ACCELERATE CLOSINGS

At that time, to assure this steady climb, seven more general adjusters were sent to the area to report to the FICO and then to spread out into the area in a way that would make sure that, in clusters of two or three, each adjusting firm would be monitored daily by a general adjuster who would stay in the area with these firms.

We did not want them to be in Pikeville, but rather that they stay in the field where they would do the most good. These general adjusters are doing their assigned duties now, are auditing claims, are contacting insureds, and are bringing about final reports from adjusters upon which we can pay claims.

At that time, the closure reports indicated that three of the major firms in the area were slow on processing. I was out at Lanham that day, and with the NFIP Claims Administrator, Jack Larson, we personally called the executive vice president of the largest firm involved, who assured us his work would be in that weekend and they would be 90-percent closed. We understand this has happened.

COVERAGE ISSUES BEING RESOLVED

By the way, at this point of time, referring back to that coverage issue situation, the NFIP was down to nine policy questions regarding the alpha situation in respect to all of which we were awaiting information from agents. In addition, there remained only 10 general coverage questions.

Senator HUDDLESTON. Would you elaborate on that just a minute.

Mr. COLLINS. OK.

Senator HUDDLESTON. What kind of questions are you talking about here? You mentioned the alpha.

Mr. COLLINS. Yes, the alpha is a case where we search, alphabetically, by name, when we get a loss notice and a policy number on the notice is wrong or we don't have a record of the policy, or maybe a policy has lapsed.

Senator HUDDLESTON. Some question that immediately disqualifies or appears to disqualify it?

Mr. COLLINS. Yes, sir, immediately disqualifies the person. So as to not let that rest, we then go to the computer, and it's a lot of time and computer programs, and run the name to see if we can find that person and see that he or she does have a policy.

Also, we get back to the agent and see what he or she has on this, if we have a wrong number and that kind of thing. It may take time to clear such cases up.

Another kind of coverage question would be the kind where we might have a misrated policy because the insured does not send in enough premium, or the building risk may not be described as a specific building, and these things have to be checked back with the agent and the correspondence that we have in our correspondence file must be reviewed.

We have people standing by to do that, but the processes are time consuming.

Senator HUDDLESTON. What precisely do you mean when you say you're down now to nine policy questions?

Mr. COLLINS. Well, this was at that point in time. I can find where we are now. I'm hoping it's cleared up by now, but that was around July 8 or thereabouts. So, hopefully, those are cleared up by now. I'll verify that.

Senator HUDDLESTON. You mean you only had nine cases that had not——

Mr. COLLINS. Of the coverage kind, the alpha, where we're trying to find people or make sure they had coverage, we were down to nine of those. Remember, we started off with 60. We're down to only 10 of the hard coverage questions of the kind: Is it misrated, is the premium correct, that kind of thing.

QUICK RESPONSE TO MEMBERS' INQUIRIES

On July 9, last Monday, the Kentucky claims at FICO 512 were 79-percent closed. I suppose I should indicate, too, while I'm at it, that we have what we call a priority inquiry summary that I would like to offer as an exhibit. It shows the kind of things you were just talking about. You triggered my mind on it. This exhibit compiles questions we receive from either congressional Members or from the DFO or from agents or the general public.

The types of inquiries involve: No payment yet received; no adjuster contact; coverage issues; that type of thing. The exhibit shows that as to those issues which people brought to FEMA's attention at the DFO, the Lanham office and the FICO turned these around in 3.1 days from receipt by the NFIP of the inquiry. In 3.1 days' average they were able to be answered.

My own office has an examiner who does nothing but handle direct inquiries from Members on our claim operations. He's been turning them around in 2.6 days. I'll put this in the record; I think you might want to look at this exhibit later.

I guess where I was was the reference to being 79-percent closed on July 9. Then, at the close of business on July 11 we were 87-percent closed, and I offer the 3025 for that day as an exhibit. Now, to be 87-percent closed 60 days after opening an office is in the best traditions of the insurance industry, especially when you're dealing with claims where the average claim cost is $11,400.

FLOOD CLAIMS MORE COMPLICATED AND DIFFICULT TO ADJUST THAN ALICIA HURRICANE WIND DAMAGE CLAIMS

We hit similar numbers in Alicia, and in the industry their average claims cost was about $2,000. Our files were much more complicated and more difficult to adjust. The folks in Texas also had a lot of damage.

Senator HUDDLESTON. Are you talking about total closures or partial closures or both?

Mr. COLLINS. Total, sir. We first make a partial, and then when we make the final payment on that case, that goes into our average claim cost figures and closure rates.

Senator HUDDLESTON. And it's not a total until the partial has been made and then the balance is paid.

Mr. COLLINS. Exactly, sir, and the closure rates, the 87 percent on July 11, will only reflect fully closed files.

Senator HUDDLESTON. That means a check has been issued?

Mr. COLLINS. The check has been issued by the computer, by July 11, and some of them ought to have been distributed locally by mail right now. Now, matters we closed on Saturday should be getting in our FICO office this afternoon or tomorrow morning. But 87 percent reflects full closure on these files.

CLOSURE RATES EQUAL TO OR BETTER THAN OTHER FICO'S, INDUSTRY

Now, these closure rates are not only the equivalent or better than those achieved in other FICO's but we think equate well with the industry's closure rates. I have an exhibit here entitled "FICO Volume and Closure Summary" which shows that closure rates in our eighth week for our Kentucky FICO at Pikeville exceed those historical FICO's I mentioned earlier—the two in Texas, one in Louisiana, two in New Jersey, one in New York, West Virginia, and Connecticut—except for Tulsa, which looks like it's going to be even better. We're doing a little better in Tulsa right now than we have been doing in Pikeville. But, of course, in Tulsa the homes are all closer together and it's easier for the adjusters to get out and around the area.

In addition, I have a graph exhibit which shows a percentage of claims closed weekly, including those historical FICO's and the Pikeville FICO operation, together with an exhibit titled, "Summary of Weekly Closed Claims" for the first 8 weeks of operation. The exhibit compares the historical average versus Pikeville (FICO 512), and to give you some idea, at week three, historically, we're at 10-percent closed. In Pikeville, the NFIP was only at 5-percent closed.

Week four, historically, it was 17-percent closed. At Pikeville we were 18-percent closed. Week five, historically, 22 percent; Pikeville, 32 percent; and so on. Week eight, historically, we were 44-percent closed; at Pikeville, we were 73-percent closed. I will put these in the record, too, for your review, sir.

CLOSURE RATES EQUAL TO FEMA DISASTER ASSISTANCE PROGRAM RESPONSE

The other thing I'd like to mention is that our results, also, square well with the results achieved by FEMA's Disaster Assistance Program which has done, by all accounts, a marvelous job of assisting the residents of eastern Kentucky in recovering from this disaster. In this connection, I note that as of last Tuesday when the NFIP had 82 percent of its Kentucky claims closed, our disaster officials indicated in the Kentucky News Brief, which I'll put a copy of in the record, that 88 percent of the flood disaster victims eligible for temporary housing assistance had received assistance. These figures represent some 1,700 out of 1,900 applications. We reached 87 percent on the next day.

I referred earlier to the cooperative efforts which the NFIP engaged in with FEMA's Minimal Repair Program—which is a part of the Temporary Housing Program—and note that as of June 29 we had handled, by way of partial payments under the flood insurance contract, 239 temporary housing/minimal repair applicants who otherwise would have had to have been handled by the Disaster Assistance Program, which really had a lot of work on their hands at the time. Our average payment there was $892 as opposed to an average claim payment of $11,400 on our own business.

Obviously, we are pleased to have assisted FEMA's Disaster Assistance Program in its worthwhile efforts while taking advantage of opportunities to make partial payments.

$11,395 AVERAGE FLOOD CLAIM COST

I have here a copy of a review of the Minimal Repair Program and how well it did in that regard.

At that point of time, which was the end of the first week of July, the NFIP had paid out $23.5 million in flood insurance payments arising out of the May floods, for an average claim cost of $11,395. These are expensive and complicated cases and I'm going to put a sample claim file in the record. It is a claim adjusted by a multiline insurance company and the examiner noted in the file that the firm, which is a local firm, did a very good job. It was a very well adjusted loss, and you'll see from looking at the file the work that goes into an adjustment involving, sometimes, adjuster visits of two or three times to reach a policyholder. Damages have to be verified; bills have to be collected; pictures are taken; and coverage issues are resolved in the claims adjustment process.

Senator HUDDLESTON. Is that more detail than might be necessary?

FLOOD CLAIM ADJUSTMENTS ARE THE SAME AS FIRE OR WINDSTORM ADJUSTMENTS

Mr. COLLINS. No, sir; it's the same as adjusting a fire loss. You have a fire at home, the company will go through the same process. If you had a windstorm and the wind came and took your roof off, that company goes through the same process.

Senator HUDDLESTON. But there's a difference. A fire, generally, is an isolated incident where you've got to go and check it out. A flood, generally, is widespread with numerous people affected, and it seems to me it ought to be assumed when you can see first-hand that a flood has gotten into a residence or into the home that there's some damage there and, usually, quite a lot.

Mr. COLLINS. You're right.

Senator HUDDLESTON. So it seems to me there ought to be some way to improve those processes, simplify them a little bit, to make it more expeditious to handle them.

Mr. COLLINS. Well, sir, I guess the best basis of comparison I can think of would be the differences and similarities between a windstorm loss and a flood loss. In a hurricane we all come together with the insurance industry. In the windstorm adjustments, as I said, in Texas their average loss was around $2,000; ours was over $11,000. Flood losses are always more complicated in these situations than wind losses, and yet both go through the very same adjusting process. The policy has virtually the same terms and conditions in it in respect to insured reporting, adjuster reporting and their standards, proof of loss requirements, and verifying the damages.

That's the thing. We're dealing with a contract and insurance claims adjuster contractors.

Senator HUDDLESTON. I understand.

Mr. COLLINS. We have to——

Senator HUDDLESTON. It's a little different from a normal commercial contract or the Government wouldn't be involved in it itself to the extent that it is. This contract is not written by normal, commercial, private insurance companies.

NFIP LIKE A WELL-RUN INSURANCE COMPANY

Mr. COLLINS. Yes, sir, that's correct. Jeff Bragg, who is from the insurance industry, as I am—I have 35 years around the business and I've been working with the Government for only 12 of these. Many of our people will tell you we are trying to run this program like a well-run insurance company in the Federal Government. That's what we're trying to do, and we do follow the adjustment practices and procedures and even the industry forms. You can look at the forms—and some of the Hartford and Aetna forms are in the record—along with the NFIP forms. They're very similar.

Senator HUDDLESTON. That may not be precisely the way it ought to be run because, if it ought to be run that way, the normal, private, usual insurance company would be writing it and the Government wouldn't have to be involved.

The fact that we're in it is that it involves a different and unique situation. You could not get flood insurance until the Government instituted the Flood Insurance Program; correct?

WRITE-YOUR-OWN PROGRAM ENABLES INSURANCE INDUSTRY TO UNDERWRITE FLOOD INSURANCE AND ADJUST CLAIMS

Mr. COLLINS. Yes, sir, exactly. That's why we're in it, and the industry can't write it without a 100-percent reinsurance program, which is what the Write-Your-Own Program is all about.

Senator HUDDLESTON. I see.

Mr. COLLINS. But the thing is, it is an insurance policy and under the act the Administrator operates the NFIP as an insurance company because that is how this program is set up, and we try to operate as efficiently as companies do. As I said early in my testimony, Jeff Bragg has made a lot of enhancements to this program to try to do the work even better and to speed up the process.

TAXPAYERS, NATIONALLY, SUBSIDIZE FLOOD LOSSES OF NFIP

The other thing that sets us apart from insurance companies is that this is a subsidized program. I mean the taxpayers of the Nation, in the aggregate, who do not suffer flood losses, are subsidizing our losses.

Senator HUDDLESTON. That's right, but they're subsidizing a lot less losses than they used to subsidize when the disasters were handled through a disaster payment, disaster grant, which there was not just participation by the person who was receiving it and paid premiums as he does in the insurance program.

Mr. COLLINS. That's why our subsidy is less, I would think, because an insurance system is based on a premium. So at least the policyholders——

Senator HUDDLESTON. It's cheaper now, any way we'd look at it.

Mr. COLLINS. Yes, sir. Premiums should be higher, but it is subsidized and we do not charge what the actuarial people tell us we should charge.

Senator HUDDLESTON. I understand, which is another reason it sets apart from the normal private insurance.

Mr. COLLINS. That's correct; that's right.

Senator HUDDLESTON. Go right ahead.

Mr. COLLINS. We will continue our efforts to bring the FICO to a rapid conclusion and believe that everything humanly possible was done to bring the work along at a reasonable level, overcome human error, and, in a management sense, make all the midstream decisions and corrections which were necessary to stay on course.

We take these actions in every catastrophic event to ensure compliance with NFIP standards. That course has produced a closure rate for Kentucky claims, as of July 14, of over 90 percent. We are over 90-percent closed today.

I would like to, before I conclude, express my thanks to you first, Senator, for letting me go on and get all these exhibits in the record so

that you can deliberate over them later. I appreciate the time you've given me.

I would also like to express some degree of pride and gratification in our people from the servicing agent who have come down to Pikeville for several weeks at a time, leaving their families at home, and have come to serve the good people down here.

The hours at the FICO, actually speaking, run from around 7 in the morning and go until 7 or 7:30 at night, and then every Saturday the FICO is open. We're very glad they were here. We regret errors that were made and we hope we made corrections that were necessary.

That concludes my testimony, sir, and I'll be pleased to answer any further questions.

Senator HUDDLESTON. Thank you very much, Mr. Collins, and I do appreciate your testimony, the thoroughness of it, and we did want a total analysis from your viewpoint on precisely how the program has been working.

I'm sure there will be those that are here that may have some questions about the effectiveness, the efficiency, of it and we'll hear from those, too, as time goes on.

Let me say this, I have had opportunity to talk with your people and General Giuffrida and all the people at FEMA responsible for this program, and I can say, I think, without reservation, that there is a desire and even a determination to make all of these programs work just as efficiently and effectively as possible and deliver the service to people. I don't think there's any deliberate attempt or lack of concern on the part of anybody, recognizing that when people have suffered a disaster, whether it's a flood or some other, they're in dire straits.

They need quick action, they need sympathy, they need understanding, and that is the area in which I think we need to make sure that we are emphasizing to the fullest extent we possibly can.

Did Mr. Zoch have anything to add at this point? Do you want to participate?

Mr. ZOCH. No, I didn't.

FLOOD CLAIMS OVER 90-PERCENT CLOSED ON JULY 16, 1984

Senator HUDDLESTON. All right, let me ask you, you say now we're about 90-percent closed?

Mr. COLLINS. Over 90, sir, as of now.

Senator HUDDLESTON. Over 90.

Mr. COLLINS. Closed.

Senator HUDDLESTON. Do you have any judgments as to when all those claims will be settled?

Mr. COLLINS. Well, sir, as I said earlier, the Hartford standard is 90 days. We're about 67 days now. Obviously, the 10 percent or so that are left comprise heavy commercial losses.

Senator HUDDLESTON. They're the tough ones. They'll be the most difficult ones.

Mr. COLLINS. Well, like they say, the impossible we do right away; the difficult takes a little longer, or something like that.

We will be working on those in the next couple of weeks to see if we can't clear them up. I can't say now, I haven't read the open files and do not know whether Mr. Zoch has had the opportunity to review any of them, but I am told by the managers at the FICO that these are the serious commercial losses that require a lot of documentation in terms of damage verification and they involve higher than the $11,000 average claim cost to be sure. We will try to clear them up as quickly as possible.

As to any dwelling losses that remain, again, I hope to hear from people this afternoon and we do mean to discuss cases with them, get their problem, and take care of it.

Senator HUDDLESTON. If they are here today, if there's anyone here today with a claim that's not settled yet, what would you suggest they do?

Mr. COLLINS. Well, there is one thing they could do. I'll be at the town meeting with all our folks, and we'll be happy to take their names and their policy numbers and discuss their cases with them, and one of our men, Jim Shortly, if you have a concerned policyholder list, is going back to the FICO tomorrow to see that accurate procedures are set up to clear those cases up and also to clear up the files that are pending.

We haven't set a date for closing, Senator. We're still here and we mean to stay here, at least until the end of the month, and even then we will keep people down here for final cleanup.

Senator HUDDLESTON. Now, the statistics that you cite, percentages and whatever, as you go along indicate that considerable effort has been made and, compared to the rest of the country, percentagewise, we've moved pretty well here in Pikeville.

Mr. COLLINS. Except Tulsa, sir.

Senator HUDDLESTON. I don't know what they've done out in Oklahoma but we'll check them out.

Mr. COLLINS. Well, houses aren't dispersed as widely in that area. That makes a claim easier to adjust.

Senator HUDDLESTON. But the point is that if a person happens to be in that percentage, no matter how small it might be, that is not getting proper attention, as far as that's concerned, that's the whole program.

Mr. COLLINS. I know that, and that's the part that——

Senator HUDDLESTON. There's no consolation in a fellow who is desperately in need of service understanding that his neighbor may have already been serviced and had his check in the mail, and we have some cases, as you know, you referred to some of them, the case of Mrs. Edna Martin, the fact that she had to wait for 29 days before an adjuster came. Do you want to tell us why it took so long to get an adjuster to Mrs. Martin's house?

Mr. COLLINS. If I can find that. I had a note on that file. I'm not sure if that's the case. Excuse me, sir.

Mr. Zoch reminds me you're right, sir. The first adjuster in this case did not get out and we don't know why, and then, in reviewing the files manually to make sure people were in contact, the office discovered Mrs. Martin and her problem, reassigned that case right away and an adjuster went right out on it.

DELAYS IN SERVICE ARE MOST REGRETTABLE

All I can say, sir, is that we regret the delay and I agree with you, it's awful to be one of those folks that isn't one on the high road that they settle right away, and all we can do is keep looking at files in these situations and reviewing the work and correcting these incidents. So, our apologies to Mrs. Martin.

CERTIFICATION OF ADJUSTERS

Senator HUDDLESTON. It seems to me, and I think we have discussed this as we've made our investigation and you've indicated to us, that there are a very limited number of adjusters who are certified within this area who could have handled this, other than those that you had to bring in. Is that correct?

Mr. COLLINS. Yes, sir, 95 percent of our adjusters came in from outside the area.

Senator HUDDLESTON. Isn't there a process or could not there be a process set up where you could encourage those adjusters to become certified? What does a certification process involve?

Mr. COLLINS. In certifying adjusters, we ask that the adjuster submit to the servicing agent in Lanham a résumé of his experience, and his résumé should show that he has a requisite number of years, a few years' experience in adjusting windstorm and fire losses. It's all property insurance. Or that he has some direct flood insurance experience, and also that he has the ability.

Senator HUDDLESTON. Can this generally be done just through the mail?

Mr. COLLINS. Yes, sir, and we would welcome adjusters from this area, and I don't know why we don't have more. We have 4,000 adjusters who are qualified throughout the country.

Senator HUDDLESTON. Has there been any effort to promote that development in this area?

Mr. COLLINS. I would have to check with the servicing agent on that but, you know, we have adjuster workshops, and we had a workshop here back in January in Louisville. I'd have to get the notes, but I don't think many more than 50 adjusters showed up. This was an adjuster's workshop. We also had two agent's workshops, I think around April, in the immediate area.

So we try to get the word out that we're a program, which is active right here, we're looking for help, and we would welcome adjusters from this area.

Senator HUDDLESTON. Well, it seems to me that that's an area that may have been neglected. Of course, it is somewhat of a new program,

but one of the problems that I saw develop was that when an insurance company has dealt with a person in selling the policy and maybe selling them other types of insurance, too, the local agency, and they, of course, have adjusters that they normally deal with, who probably were not certified for flood insurance, so as soon as the disaster declaration was made and we switched to the flood insurance situation, they had to switch adjusters. This causes, I think, a considerable problem, particularly when adjusters are brought in from out of the State who may not be familiar with the area and don't really know how to assess immediately the flooding situation in eastern Kentucky.

So do you see any value in making a concerted effort to make sure that those adjusters who are in the area at least know that they need to be certified, ought to be certified, and could be very helpful to the area, as a public service if nothing else, if they were certified so that they could immediately be brought into this process when a flood occurs?

Mr. COLLINS. Senator, you have probably just done more for us in that regard than we can do ourselves but, yes, we will make an effort. We will talk to the servicing agent back in Lanham and see if we can't set up some program to identify qualified adjusters in this area. We'll target this area and get those fellows on board, and I thank you for calling it to our attention.

PARTIAL PAYMENTS

Senator HUDDLESTON. Well, it just seems to me a potential that these fellows be there. The question of partial payment, I think you've covered pretty thoroughly, although the impression we got, at least, in talking with the citizens and how it actually worked, was that it was used rather sporadically. I'm not sure if your message got through in the very beginning that the claimant ought to have been advised that partial payment was available to them, even though it is written into the insurance contract itself.

Mr. COLLINS. Yes, sir.

Senator HUDDLESTON. So I would hope that you will make sure that this is a standard operating procedure.

Mr. COLLINS. The things that I described are standard and, as I said, 25 percent of the claims received partials, and while Wayne, NJ, had 42 percent, Pikeville got its fair share of partial payments, and we keep repeating the message to adjusters. I guess we'll just have to do it more because we do want to make partial payments.

Senator HUDDLESTON. But you have no reluctance on partial payments?

Mr. COLLINS. Absolutely not; we want to make partial payments.

Senator HUDDLESTON. Some people also find it curious that the Flood Insurance Program is contracted out to a private computer company, computer science company, rather than to an insurance company. What comment would you have on that?

CONTRACTING NFIP FUNCTIONS WITH PRIVATE-SECTOR CONTRACTORS

Mr. COLLINS. Well, I've been with the program, oh, 12 or 13 years, and before 1978 we operated the program with a consortium of insurance companies called the National Flood Insurers Association. They did not renew their contract and a new contract was entered into in January 1, 1978, by the Government with a private-sector computer facility.

The Government went through the normal procurement practice and process which is competitive bidding, like any Government contract, and we solicited bids from among insurance companies. The first year we received bids from computer service companies and others, and we selected a computer service company that had considerable insurance expertise in the medical health field, handling those claims.

The fact is that the Government procurement process works and the bidding process works because only a year or so ago the computer facility had run the contract for about 5 years and we went out and competitive bid it again, and the existing servicing agent made a very fine bid, but our incumbent contractor made an even better bid. I can tell you, Senator, that I sat on the board of selection that picked the winner, if you will, and to answer your question directly, no insurance company bid nor did any large insurance agent bid.

One of the reasons I voted "Yea" for the current contractor is that they brought with them a lot of insurance expertise. I'm sure you're aware of the Aetna Insurance Co. at Hartford, CT. They had recently merged with a similar group and a great many of their employees were available for one reason or another, and these were good management people. I mean the new, parent company didn't want them because they had their own people. We were able to hire a good many of those people.

The NFIP Claim Administrator, for example, had many, many years of experience in the field and the home office of the Aetna. The NFIP underwriting manager hired by the incumbent contractor, too, had many years of experience. Our project director also had many years of experience with the Allstate Insurance Co.

SERVICING AGENT IS DEEP IN INSURANCE EXPERIENCE

I know they are a computer outfit and that that is their main function, but the company is very deep in insurance expertise, and we're very happy about that. The examiners they hired all come from the private sector.

FIA, as you know, is not very large at all. We probably have about 100 people and, I don't know, with the field staff and all, we might have 150 people. As I said earlier, only 50 of us work on insurance and the policy and claims and underwriting functions are in my Office. I only have 15 or 16 people. Like the marines, we only need a few good men and women and that's all we have. I include women with pride in the marine context. My niece just joined the Marine Corp, so I know about which I speak. We're like that. We're lean; we don't have many people.

Senator HUDDLESTON. Would there be a possibility to establish a claims office in each county where widespread flooding occurs with the authority there to make payments?

NOT ENOUGH STAFF TO SET UP OFFICES IN EACH FLOODED COUNTY

Mr. COLLINS. We couldn't handle it. We don't have the staff and it would drive the cost of the policy through the roof if we had to establish multiple offices. I mean, in a claims office you need a manager, you need some general adjusters, you need some supervisors, you need 5 or 6 or 8 examiners and there are only 83 people in the claims department of the contractor. We simply do not have the staff to do that.

We had a real juggling act on our hands when this FICO opened in that we had to clear things up in the Northeast and then we had two more FICO's open up immediately after Pikeville. It has never happened before that we had five and six FICO's open at the same time.

Senator HUDDLESTON. You have a pamphlet that you put out, "Tips on Handling Your Flood Insurance Claim." Was there any effort to see that this was more widely distributed or made available to everyone who may need it?

Mr. COLLINS. May I see the face of that, sir? I must be candid, Senator——

Senator HUDDLESTON. Freshly out of publication.

Mr. COLLINS. Yes, that's on my desk. It has error in it; I'm revising it personally.

Senator HUDDLESTON. It has an error?

Mr. COLLINS. It has error and it's on my desk right now and I need to change it to make it very accurate and reissue it. I did not issue that; I saw it.

Senator HUDDLESTON. I would hope you would correct it.

Mr. COLLINS. Yes; that has error in it and it's on my desk, the left-hand corner of my desk. It's sitting there and as soon as I can get to it, I'm going to correct it and have it republished.

Senator HUDDLESTON. Well, what about Mrs. Martin and other claimants who were told that they should put their ruined belongings out in the yard and wait for an adjuster to come by? Is this normal instruction, normal policy?

Mr. COLLINS. Well, just as in a fire loss or a windstorm loss, initially the policyholder should separate the damaged property and make it available for inspection The insurance contracts require this. Now, there has to be a rule of reason here and I don't know how long these folks were told to keep their goods out in the yard but——

Senator HUDDLESTON. For Mrs. Martin it was 29 days.

ADJUSTMENT PROCEDURES

Mr. COLLINS. That's deplorable and that good lady should have been told to haul the debris away and we could have assessed her damages in some other fashion, But the damaged property should stay there a reasonable time, as a general rule, for the adjuster to get out and get a

look at the damage. It is wrong that a person should have to keep the damaged property available for inspection for a long time. That was a mistake here and all I can say is that we're very sorry that it happened. We'll be more watchful in the future in this situation.

Senator HUDDLESTON. What about debris removal? There have been a number of questions about that. What is the coverage on debris removal?

DEBRIS REMOVAL COVERAGE

Mr. COLLINS. Debris removal is covered as part of the overall coverage limit, so if you have a $35,000 insurance policy and $10,000 loss and it takes you $1,000 to get that debris hauled away, we include that figure in the loss adjustment, up to the coverage limits.

Senator HUDDLESTON. And what happens when they're not payable for actual damage to the property and the expense for the debris removal exceeds the limit of liability for the damaged property?

Mr. COLLINS. Then, unfortunately, the person doesn't have enough coverage. There's not a separate coverage for debris removal. As to some of the policies, by the way, Senator, I got the feeling, looking at some of the notes on the cases, that many of the folks here were underinsured. Many of the jurisdictions are in the emergency program, for instance, in which $35,000 coverage is allowed for the dwelling, the single-family house. A lot of folks only had, you know, $10,000, $15,000, $20,000, and at emergency program rates, which are now 45 cents for $100 of coverage, it's not all that expensive to have a little bit more coverage. That should be encouraged because the insured receives replacement cost coverage if he or she is covered for 80 percent of the cost of replacement of a single-family home at the time of the loss, or the available program limits of coverage, if less than the replacement cost.

Senator HUDDLESTON. You've got to have coverage for both content and the structure.

Mr. COLLINS. Yes, sir, but in the case of the people insured for the emergency program limits as to the building, we do not take into account the depreciation. They get first dollar in their claim settlement. Replacement cost coverage is a much better deal although it does not apply to contents.

Senator HUDDLESTON. Except you've got a $500 deductible on both the contents and the building which, in effect, is a $1,000 deductible which is somewhat high.

PROGRAM STATISTICS

Mr. COLLINS. Our average premium rate in this national program is probably running about $198. It's because of the deductibles, really, that we're allowed to keep the premiums that low.

Senator HUDDLESTON. Do you have any statistics on how many policyholders take both the content and building? Would that be pretty high?

Mr. COLLINS. I don't have, sir. It's a pretty high percentage. We have 1,900,000 policyholders right now and probably have coverage in force

of about $110 billion. We've paid about $1.5 billion in claims since the inception of this program and we've probably paid out, in number, more than 250,000 claims. The program compares to a very big insurance company.

$50 DEDUCTIBLE FOR COSTS OF REMOVAL OF INSURED PROPERTY

Senator HUDDLESTON. What about the $50 deductible that is on moving a dwelling or the contents away from the peril of the flood? It seems to me that ought to be encouraged.

Mr. COLLINS. Yes, sir; that's why the deductible is only $50. I'll agree that in some areas that's a lot of money. I appreciate that, but on a national program basis we felt that the deductible would not be too high for policyholders to bear and, yet, would encourage them to move their property away from the flooding.

Senator HUDDLESTON. Eliminating it all together would be too expensive or——

Mr. COLLINS. I'll inquire of the Administrator and see what we can do.

Senator HUDDLESTON. It might be looked at.

Mr. COLLINS. Anything that is suggested, I'll be happy to take back.

Senator HUDDLESTON. Every one that's moved ought to reduce the liabilities.

Mr. COLLINS. We have a good actuary, our Deputy Administrator, who is from the private sector, and I'll see what the numbers look like after I consult with him.

Senator HUDDLESTON. We've run into, of course, a lot of trouble on the question of coverage or the lack of coverage for a finished basement.

LIMITATION OF COVERAGE IN FINISHED BASEMENTS

Mr. COLLINS. I have some exhibits on that. I didn't know that would be a subject of inquiry. One of the newspaper articles quoted a person complaining of that situation.

Senator HUDDLESTON. Who had it in his policy.

Mr. COLLINS. Sir?

Senator HUDDLESTON. Who had the coverage written into his policy but learned after the claim that it was not, in fact, covered, and that brings up a question whether or not when a policy is changed, whether the policyholders should not be adequately notified of such.

Mr. COLLINS. I'll find my file. We did send notices. Just give me a moment.

OK, on the question of notice, every policyholder, when we made the change not to cover——

Senator HUDDLESTON. What was that date?

Mr. COLLINS [continuing]. The finished basement. That was October 1, 1983. First of all, we went the rulemaking process in the Federal Register and invited comment on this proposed change.

Senator HUDDLESTON. That doesn't generally get down on the county level.

Mr. COLLINS. We know that, Senator. Not everybody reads the Register.

Senator HUDDLESTON. I don't read it myself.

Mr. COLLINS. Yes, sir, but we did satisfy the Administrative Procedure Act and went through that process, the Register publication for comments and the final assessment of comments and the final rule, plus, as you point out, we needed to inform our policyholders, and we did.

NOTICES TO POLICYHOLDERS, AGENTS, BANKS, COMMUNITIES, ON FINISHED BASEMENT COVERAGE LIMITATIONS

What we did was, we sent notices to, first off, every agent, and we probably have, I don't know, 115,000 agents on our agent master file. Every agent got a notice on that finished basement change, and I have a copy of that notice and I'll put that in the record. It's right here.

Senator HUDDLESTON. Did you leave it to the agent then to advise the policyholder?

Mr. COLLINS. No, sir; no, sir. We did a lot of notifying. I'm glad you brought this up because it keeps recurring. The question is asked in New Jersey, too, "Did you give people notice?" We really did quite a thorough job.

In addition to the agents, every community official, the chief executive officer of every community that we deal with, received a notice. Now, that's over 17,000 communities which are in this program, and I'll put that notice in the record.

In addition to that, we sent notices to every lending institution, every mortgagee that is on our policy, and counting branches, we are looking at about 240,000 bank branches that received these notices.

So we covered the agents, we covered the community officials participating in the program, we covered the lenders. In addition to that, we sent a notice with the renewal of our policies to each and every policyholder. Every policyholder received a special notice, "Please note, effective October 1, 1983, changes are being made in the standard flood insurance policy," and one of these changes, of course, is the fact that new and renewal policies do not cover flood damage to finished walls or contents in basements.

We sent that to every single policyholder prior to renewal time. Renewal notices are sent to insureds 45 to 50 days before the expiration of the policy. In addition to that, when the policyholder received his or her new policy in the mail, the policy itself had a special notice on it: "Please note, you no longer have coverage for finished basements."

Now, I'd like for a moment, Senator, so that we——

Senator HUDDLESTON. But that was just at renewal time?

Mr. COLLINS. No, sir, we sent it at renewal time and we sent every policyholder a second notice when he got his policy. So that's twice that we went to the policyholder in addition to all those other folks.

We also sent notice to agents in our publication—The Watermark its called—and that goes to all our agents, and we included notification of

the basement changes in that. So, you know, we had the feeling back in the office that we kind of papered the world with notices. Yet even though we covered the highways and byways, some felt we did not give enough notice. I don't know what to do about it We did the best we could with that.

REASONS FOR FINISHED BASEMENT LIMITATIONS ON COVERAGE

I'd like to mention, because I think this would be worthwhile, why we made the decision to curtail finished basement coverage. It should be entered into the record. Simply stated, our basement experience, our loss experience in respect to flooded basements, was really causing the program and the subsidy an enormous outpouring of money.

The act under which we operate, the National Flood Insurance Act of 1968, at section 1306(a) gives the agency the mandate to use the regulatory process in assessing the coverage to be provided. Section 1302 of the act requires the Administrator, in administrating the act, to base the provision of flood insurance on, and I'm quoting, sir: "Minimizing costs and distributing burdens equitably among those who will be protected by flood insurance and the general public." The general public, of course, are the taxpayers who subsidize the program.

I have some exhibits here which I'll put in the record. The Administrator was faced with the question of, How do you balance these equities? We need to protect the taxpayer from oversubsidization and, at the same time, we need to deliver a worthwhile product at a reasonable price to our policyholders.

Now, one of these exhibits I have here shows our experience, our flood insurance results, from 1978 through 1982. It shows that as to basement buildings we had to incur $554 million of Treasury borrowings to pay the losses. The premiums for basement buildings were that insufficient.

As to nonbasement buildings, we had to borrow only $121 million from the Treasury. So we had to use five times more subsidy in borrowings from the general taxpayer for finished basements. That is shown on this chart and also on another exhibit I have here, showing that our basement buildings represent only 15 percent of all policies. So, 15 percent of our policies were drawing down $554 million from the U.S. Treasury, whereas the remaining policies were only drawing down $121 million.

Also, losses for these basement buildings represented, in dollars paid, 53 percent of all of the program's losses. The regular business, the nonbasement business, represented only 47 percent of the claim dollars paid.

So we have this 5-to-1 outgo. Now, Mr. Bragg did not want to not insure basements. We insure basements. I have another exhibit here that shows the scope of the basement coverage.

Here's what's not covered——

BASEMENTS ARE COVERED, EXCEPT FOR FINISHED PORTIONS

Senator HUDDLESTON. Basement coverage now exists?

Mr. COLLINS. Yes, sir. It's the finishings, the finished part of the basement, which is the problem that's causing us all these losses, and, in a flood area particularly, we all know that the basement is where the water goes into the building. It's the worst place to have a basement, if you're in a flood plain, because that basement is probably below the base flood level and is very susceptible to damage.

Senator HUDDLESTON. Let me ask you to submit that for the record and we may want to pursue this somewhat further later on. With our time running, I want to be sure to get to those who have dealt with this problem on the other end.

Mr. COLLINS. Could I beg your indulgence?

Senator HUDDLESTON. Yes.

Mr. COLLINS. Give me 1 minute.

Senator HUDDLESTON. Yes, sir.

Mr. COLLINS. I just want to wrap it up fast so we can all hear what is still covered in the basement.

Senator HUDDLESTON. Sure, all right.

ITEMS THAT ARE COVERED IN BASEMENTS

Mr. COLLINS. The elements not covered in basements, in finished basements, are contents, improvements like finished walls, floors, and ceilings, building equipment and fixtures. What we still cover in basements are the foundation elements, all the required utility connections, sump pumps, well water tanks and pumps, oil tanks, furnaces, hot water heaters, clothes washers and dryers, food freezers, air conditioners, heat pumps, electrical junction and circuit breaker boxes, cleanup, and we even cover sheetrock walls and ceilings—but not the painting—because we feel that's a fire retardant and as a matter of public policy, we should cover the unpainted sheetrock.

So it's just the finishing touches and some contents that we don't cover. The vital elements in the basement are all covered.

Senator HUDDLESTON. I think it's good to get that clarified.

Mr. COLLINS. Thank you.

PREPARED STATEMENT

Senator HUDDLESTON. We've had a lot of problems with it. If you and Mr. Zoch will stand back so that we might get your response, perhaps later, to some of the problems and questions that may come in the next little bit, we'll move ahead to some of our other witnesses and see what kind of problems we hear about. But first, let's place your written statement in the record at this point.

[The statement follows:]

STATEMENT OF DONALD L. COLLINS, ASSISTANT ADMINISTRATOR, FEDERAL INSURANCE ADMINISTRATION, FEDERAL EMERGENCY MANAGEMENT AGENCY

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, I WELCOME THE OPPORTUNITY TO APPEAR BEFORE YOU TODAY AND BRING YOU GREETINGS FROM THE FEDERAL EMERGENCY MANAGEMENT AGENCY'S DIRECTOR, LOUIS O. GIUFFRIDA, AND FEDERAL INSURANCE ADMINISTRATOR, JEFFREY S. BRAGG. TODAY I WOULD LIKE TO DISCUSS THE FEDERAL INSURANCE ADMINISTRATION'S (FIA) VIEWS IN RESPECT TO THE ADMINISTRATION AND HANDLING OF CLAIMS UNDER THE NATIONAL FLOOD INSURANCE PROGRAM (NFIP) ARISING FROM THE FLOODS OF MAY 7 THROUGH MAY 9 IN EASTERN KENTUCKY. PRIOR TO THESE FLOODS, THE NFIP HAD, SINCE JANUARY 1, 1978, PAID $13,831,041 IN SETTLING 2879 FLOOD INSURANCE CLAIMS IN KENTUCKY FOR AN AVERAGE CLAIM PAYMENT OF $4,804.00.

AS THE ASSISTANT ADMINISTRATOR OF THE OFFICE OF INSURANCE POLICY ANALYSIS AND TECHNICAL SERVICES, REPORTING DIRECTLY TO THE ADMINISTRATOR, MY RESPONSIBILITIES INCLUDE GENERAL POLICY OVERSIGHT IN RESPECT TO THE UNDERWRITING AND CLAIMS ASPECTS OF THE PROGRAM. ACCOMPANYING ME TODAY IS JOHN ZOCH, FIA'S DIRECTOR OF THE PROPERTY CLAIMS DIVISION. AS YOU KNOW, THE DAY-TO-DAY OPERATIONS OF THE FLOOD INSURANCE PROGRAM ARE HANDLED THROUGH A SERVICING AGENT, THE COMPUTER SCIENCES CORPORATION OF LANHAM, MARYLAND, UNDER DIRECT CONTRACT WITH THE FEDERAL GOVERNMENT.

I THOUGHT, FIRST, IT WOULD BE WORTHWHILE AS BACKGROUND TO DISCUSS SOME OF THE POSITIVE STEPS TAKEN BY THE ADMINISTRATOR SINCE 1981 TO FACILITATE THE CLAIMS OPERATIONS OF THE NFIP. FOLLOWING THIS, WE WILL DISCUSS SOME OF THE EXTERNAL PROBLEMS WHICH AFFECTED THE FLOOD INSURANCE CATASTROPHE OFFICE (FICO) OPERATIONS IN PIKEVILLE, AS WELL AS SOME OF THE INTERNAL DIFFICULTIES WHICH WERE ENCOUNTERED, AND ELABORATE ON THE STEPS TAKEN TO MAINTAIN A LEVEL OF SERVICE TO OUR POLICYHOLDERS FOR THE PIKEVILLE FICO COMMENSURATE WITH THAT ESTABLISHED HISTORICALLY FOR OTHER STORM CENTER OPERATIONS.

TO BEGIN, IT SHOULD BE NOTED THAT, FOR THE FIRST TIME IN THE HISTORY OF THE NFIP, CONTRACTUAL PERFORMANCE STANDARDS WERE ESTABLISHED FOR THE SERVICING AGENT BACK IN 1981, AND, AS TO CLAIMS, THESE STANDARDS REQUIRED PAYMENTS TO BE DISPATCHED WITHIN 10 DAYS OF RECEIPT OF A PROOF OF LOSS, FOR CLAIMS TO BE CLOSED ON THE AVERAGE WITHIN 45 DAYS OF RECEIPT OF THE NOTICE OF CLAIM, AND FOR ADJUSTER REPORTING AND PERFORMANCE REQUIREMENTS TO BE DETAILED IN MANUALS WHICH WERE PREPARED FOR BOTH THE OPERATION OF FICO'S AND FOR ADJUSTER PERFORMANCE.

I WOULD LIKE TO POINT OUT, INCIDENTALLY, THAT THE STANDARDS REQUIRED OF OUR ADJUSTERS ARE THE EQUIVALENT OF THOSE REQUIRED BY MAJOR INSURANCE COMPANIES IN THE PRIVATE SECTOR. FOR EXAMPLE, THE AETNA INSURANCE COMPANY REQUIRES THAT CONTACT MUST BE ATTEMPTED WITH THE INSURED WITHIN 24 HOURS OF RECEIPT OF THE ASSIGNMENT, THAT REPORTS BE FILED WITHIN 15 DAYS OF THE ASSIGNMENT, WHICH, AS CAN BE SEEN FROM A READING OF OUR FICO MANUAL, ARE THE STANDARDS IN EFFECT UNDER THIS PROGRAM. HARTFORD INSURANCE COMPANY ALSO REQUIRES PRELIMINARY REPORTS WITHIN 15 DAYS AND THAT FILES, GENERALLY, BE CLOSED WITHIN 90 DAYS.

IN MAY OF 1982, THE ADMINISTRATOR MOVED AWAY FROM THE PRACTICE OF MANY PRIVATE SECTOR INSURERS OF ISSUING DRAFTS TO THE POLICYHOLDERS IN PAYMENT OF CLAIMS IN FAVOR OF CHECKS. AS YOU KNOW, A DRAFT IS NOT A NEGOTIABLE INSTRUMENT AND, TYPICALLY, MUST BE PRESENTED AND HONORED AT A FAR-AWAY BANK, TAKING WEEKS TO CLEAR IN SOME CASES. THE CHECK, BEING A NEGOTIABLE INSTRUMENT, SPEEDS UP THE PROCESS OF GETTING MONEY IN THE HANDS OF OUR POLICY-HOLDERS BY THAT LENGTH OF TIME. MANY INSURERS, PARTICULARLY WINDSTORM POOLS, STILL ISSUE DRAFTS IN DISASTER SITUATIONS.

IN JULY OF 1983, THE ADMINISTRATOR DEVELOPED AN ON-LINE CLAIM SYSTEM, WHICH WAS INSTALLED IN THE PIKEVILLE FICO, AND WHICH ALLOWS IMMEDIATE SYSTEM ACCESS AND INPUT IN TERMS OF CLAIM MANAGEMENT AND CLAIM TRACKING. PERHAPS ITS MOST IMPORTANT FEATURE IS THAT THE SYSTEM PERMITS CHECKS TO BE AUTOMATICALLY ISSUED BY THE COMPUTER IN LANHAM, THUS OBVIATING THE MANUAL CHECK WRITING METHODS STILL IN USE IN MANY COMPANIES. THIS SAVES CLAIM DOLLAR DELIVERY TIME TO THE POLICYHOLDERS IN THAT, AS REQUESTS FOR CHECKS ARE INPUTED INTO THE SYSTEM AT THE FICO, THEY ARE ELECTRONICALLY TRANSMITTED TO LANHAM, AND OVERNIGHT THE COMPUTER ISSUES THE CHECKS WHICH ARE BATCH MAILED, BY OVERNIGHT DELIVERY, TO THE FICO FOR LOCAL MAILING. THIS SYSTEM, TOGETHER WITH THIS LAST ENHANCEMENT, SPEEDS UP THE PROCESS BY SEVERAL DAYS.

IN OCTOBER OF 1981, THE STANDARD FLOOD INSURANCE POLICY WAS MODIFIED TO ENCOURAGE POLICYHOLDERS TO "DISCUSS WITH THE ADJUSTER ANY NEED [THE POLICYHOLDER] MAY HAVE FOR AN ADVANCE OR PARTIAL PAYMENT OF [THE] LOSS." THE ADJUSTER'S HANDBOOK, WHICH IS CONTINUOUSLY BEING REVISED, ADVISES ADJUSTERS THAT PARTIAL PAYMENTS CAN BE MADE AT THE REQUEST OF THE POLICYHOLDER.

OVER A YEAR AND A HALF AGO, A BACK-UP CLAIMS EXAMINING RESOURCE WAS ESTABLISHED WITH PRIVATE SECTOR INSURERS AND INSURANCE INVESTIGATION FIRMS TO PROVIDE ADDITIONAL HELP, AT PEAK CLAIMS EXAMINING TIMES, TO SPEED UP THE CLAIMS-EXAMINING AND PAYMENT PROCESS. THE NFIP IS A SOMEWHAT LEAN FEDERAL PROGRAM IN THAT THE SERVICING AGENT ONLY HAS APPROXIMATELY 80 PEOPLE IN ITS ENTIRE CLAIMS OFFICE AND, OF THESE, THE CLAIMS EXAMINING FORCE IS COMPRISED OF ABOUT 28 PEOPLE. THERE ARE ABOUT 50 PEOPLE IN FIA. THERE ARE, IN ADDITION, 9 GENERAL ADJUSTERS EMPLOYED BY THE SERVICING AGENT WHOSE MAIN MISSION IS TO FURTHER THE ADMINISTRATION'S GOAL OF PREVENTING FRAUD, WASTE, AND ABUSE IN GOVERNMENT PROGRAMS. THIS IS DONE BY A CLAIMS REINSPECTION ACTIVITY CONDUCTED BY THE GENERAL ADJUSTER STAFF, INVOLVING THE FIELD REVIEW OF ADJUSTMENTS BY INDEPENDENT CLAIMS ADJUSTERS SO AS TO PREVENT IMPROPER ADJUSTMENTS.

ALTHOUGH NOT GERMANE TO PIKEVILLE, IT IS WORTH NOTING ALSO THAT THE ADMINISTRATOR HAS WORKED WITH THE PRIVATE SECTOR IN DEVELOPING A SYSTEM FOR SHARING ADJUSTERS IN A COMBINED WIND AND WATER CATASTROPHIC EVENT, THERE NOT BEING, AS WE FOUND OUT LAST SUMMER IN HURRICANE ALICIA, ENOUGH ADJUSTERS TO GO AROUND TO HANDLE ALL THE CLAIMS.

THE ADMINISTRATOR HAS ALSO EMBARKED ON A WRITE-YOUR-OWN PROGRAM UNDER WHICH INSURERS ARE ENCOURAGED TO ENTER INTO AN ARRANGEMENT WITH THE ADMINISTRATOR TO ISSUE FLOOD INSURANCE POLICIES TO THEIR OWN HOMEOWNERS AND COMMERCIAL CLIENTS. UNDER THIS ARRANGEMENT, INSURERS WILL BE ADJUSTING FLOOD LOSSES USING THEIR OWN STAFF, WHICH SHOULD MAKE MORE ADJUSTING RESOURCES AVAILABLE TO NFIP FOR THE BUSINESS IT RETAINS.

LAST SEPTEMBER, THE AUTOMATED CLAIMS SYSTEM WAS ENHANCED TO ENABLE FIA AND NFIP MANAGEMENT TO TRACK, IN A FICO SITUATION, THE RATIO OF CLOSED CLAIMS TO ASSIGNED LOSSES BEING ACHIEVED BY INDEPENDENT CLAIMS ADJUSTMENT FIRMS AND INDEPENDENT ADJUSTERS. THIS ENABLES US TO MONITOR THE FIRMS AND ADJUSTERS ON A DAILY BASIS AND, WHERE THEY ARE SLOW TO CLOSE CASES, GENERAL ADJUSTERS AUDIT THE FIRMS. WHERE AN ADJUSTER IS OVERLOADED WITH ASSIGNMENTS OR THE RESULTS ARE NOT UP TO STANDARDS, FILES ARE REASSIGNED. IT ALSO ENABLES THE NFIP CLAIMS ADMINISTRATOR AND OUR OFFICE TO CALL UPON THE CHIEF EXECUTIVE OFFICERS OF THESE FIRMS TO REQUIRE AN ACCELERATION OF THEIR WORK. THIS WAS DONE IN THE PIKEVILLE CASE, AS WILL BE DISCUSSED LATER.

ON MAY 1, 1984, IN A CONTINUING REVIEW OF METHODS BY WHICH THE CLAIMS PAYOUT TO THE POLICYHOLDER CAN BE IMPROVED, THE ADMINISTRATOR AUTHORIZED THAT CHECKS FOR THE FULL AMOUNT OF THE LOSS COULD BE SENT TO THE INSURED EVEN WHERE REPLACEMENT COST COVERAGE IS INVOLVED. UNDER STANDARD PROPERTY INSURANCE CONTRACTS--AND OURS IS NO DIFFERENT--INSURERS, WHEN THEY PAY BASED ON REPLACEMENT COST COVERAGE, WHICH MEANS DEPRECIATION IS NOT TAKEN INTO ACCOUNT, USUALLY HOLD OUT A PERCENTAGE OF THE MONEY UNTIL THEY ARE ASSURED THAT THE REPAIRS HAVE ACTUALLY BEEN COMPLETED. THE ADMINISTRATOR, FEELING THIS WAS UNFAIR TO OUR POLICYHOLDERS, HAS DISCONTINUED THE PRACTICE IN MOST CASES.

AT THIS POINT, I WOULD LIKE TO GET INTO SOME OF THE PROBLEMS ENCOUNTERED IN THE OPERATION OF THE PIKEVILLE FICO OFFICE AGAINST A BACKGROUND OF THE OVERALL SITUATION AS IT EXISTED IN TERMS OF OUR CLAIMS OPERATION AT THE TIME THE FICO WAS OPENED. OF SIGNIFICANCE, I BELIEVE, IS THE FACT THAT AT THE TIME OF THE KENTUCKY FLOODING, WE HAD THREE MAJOR FICO'S IN HIGH GEAR--ONE IN OCEAN CITY, NEW JERSEY INVOLVING 5200 CLAIMS, ANOTHER IN WAYNE, NEW JERSEY INVOLVING 2700 CLAIMS, AND A THIRD IN HICKSVILLE, NEW YORK INVOLVING 2,000 CLAIMS. THE TOTAL ADJUSTER COMMITMENT TO THESE OPERATIONS INVOLVED UPWARDS OF 400 ADJUSTERS AND PLACED CRITICAL DEMANDS ON THE PROGRAM STAFF RESOURCES. IN ADDITION, THE CASE LOAD OF OPEN CASES IN LANHAM AMOUNTED TO SOME 5,000 CLAIMS. IT IS VERY RARE THAT THE PROGRAM HAS THREE FICO'S OPERATING AT THE SAME TIME, LET ALONE FOUR, AND WITHIN A FEW WEEKS OF OPENING OUR OFFICE IN PIKEVILLE TWO MORE FICO'S WERE ESTABLISHED--ONE IN TULSA, OKLAHOMA, AND ANOTHER IN MIDDLESEX, CONNECTICUT, SO THAT IMMEDIATELY FOLLOWING THE PRIME TIME OF ESTABLISHING OUR PIKEVILLE OPERATION, FOR A FEW WEEKS AT A TIME THEREAFTER, THE PROGRAM WAS OPERATING A PREVIOUSLY UNHEARD OF FIVE AND SIX STORM CENTERS. TULSA, OKLAHOMA AND MIDDLESEX, CONNECTICUT HAVING BEEN OPENED UP ON MAY 31, 1984 AND JUNE 4, 1984, RESPECTIVELY.

UPON OPENING THE FICO FOLLOWING THE FLOODING OF MAY 7 THROUGH MAY 9, I WOULD BE REMISS IF I DID NOT ACKNOWLEDGE RIGHT HERE AND NOW THAT, ALTHOUGH IT WAS NEVER A PROBLEM IN THE PAST, MORE COULD HAVE BEEN DONE BY THE PROGRAM FROM A PUBLIC RELATIONS STANDPOINT TO EXPLAIN THE NATURE OF OUR BUSINESS SO AS TO MITIGATE PERHAPS SOME UNREASONABLE EXPECTATIONS ON THE PART OF OUR POLICY-HOLDERS IN TERMS OF HOW QUICKLY THEIR CLAIMS COULD BE PAID. JUDGING FROM SOME OF THE NEWSPAPER ACCOUNTS I HAVE READ, IT SEEMS TO BE A PER-CEPTION THAT THE CLAIMS ADJUSTERS VISITS AND SUBSEQUENT PAYMENTS SHOULD HAVE OCCURRED MUCH QUICKER THAN THEY DID AND I GET THE FEELING THAT THE PROGRAM

WAS PERCEIVED IN THE MINDS OF SOME AS AN ASSISTANCE PROGRAM RATHER THAN AN "INSURANCE COMPANY" WHICH IS REALLY WHAT WE ARE. IN THE FUTURE, THE FIA WILL MAKE SURE THAT POLICYHOLDERS REALIZE THAT THE NFIP INVOLVES AN INSURANCE CONTRACT AND THAT AN APPLICATION FOR MONETARY ASSISTANCE IS NOT ENOUGH UPON WHICH TO PREDICATE A LOSS PAYMENT. THUS, LIKE ANY FIRE OR WINDSTORM INSURER, AN ADJUSTER INVESTIGATION, VERIFICATION OF DAMAGES WITH SUPPORTING DOCUMENTATION BY THE POLICYHOLDER, COVERAGE INVESTIGATION AND VERIFICATION, AND CLAIMS EXAMINATION ALL MUST PRECEDE THE ADJUSTMENT OF A LOSS.

ALSO, THE ADJUSTERS WE EMPLOY MUST INVESTIGATE SUBROGATION POSSIBILITIES, ACCOUNT FOR SALVAGE, AND THE LIKE. THIS STORY WE HAVE LEARNED WE MUST TELL CLEARLY AT THE TIME WE SET UP FICO OPERATIONS IN THE FUTURE.

ON OPENING THE FICO, THE NFIP MONITORS WIDE SPREAD FLOODING VS. POLICY COUNTS OF A NUMBER OF COUNTIES IN AN EFFORT TO DETERMINE THE BEST PLACE TO SET UP OPERATIONS. ON MAY 9, FIA DIRECTED THAT A CONTROL TEAM BE SENT TO THE AREA. IT ARRIVED THAT DAY AND ESTABLISHED A CONTROL OFFICE IN THE "BEST WESTERN" FROM WHICH, COMMENCING MAY 11, LOSSES WERE BEING ASSIGNED TO ADJUSTERS WHO SHOWED UP. DURING THE PERIOD MAY 12 THROUGH MAY 16, SOME 120 ADJUSTERS HAD SIGNED UP, PHONES AND CRT'S WERE INSTALLED, AND A FIRST ADJUSTERS MEETING WAS HELD AT THE HOLIDAY INN. IT SHOULD BE NOTED THAT, AT THE TIME, THERE WAS CONSIDERABLE TORNADO AND WINDSTORM ACTIVITY IN THE NATION, AND MANY INDEPENDENT CLAIMS ADJUSTERS WERE ENGAGED BY PRIVATE SECTOR INSURERS WHOSE CATASTROPHE LOSSES FOR THE YEAR TO JUNE 1 AMOUNTED TO $930 MILLION OF TORNADO AND WINDSTORM LOSSES, $180 MILLION OF WHICH OCCURRED FROM MAY 1 TO MAY 9, 1984 WITH ANOTHER $93 MILLION OF LOSSES ARISING FROM MAY 25 TO JUNE 1. THESE EVENTS INVOLVED 24 STATES AND DISPERSED ADJUSTERS ALL ACROSS THE COUNTRY.

ADJUSTER AVAILABILITY IS A CRITICAL ISSUE, AND THERE ARE ONLY SIX NFIP APPROVED ADJUSTERS IN THE PIKEVILLE AREA; WHILE WE HAVE SOME 400 NFIP ADJUSTERS WHO WILL TRAVEL OUT OF STATE DEPENDING ON THE WORK LOAD, ECONOMIC CONSIDERATIONS, AND LOCATION OF THE DISASTER, THESE ADJUSTERS ARE NOT FEDERALLY EMPLOYED OR CONTROLLED. THEY ARE INDEPENDENT CONTRACTORS WHO GENERALLY WORK FOR PRIVATE SECTOR INSURERS AND STAY WHERE THEIR OWN OFFICES ARE LOCATED. WE HAVE NO ADJUSTERS TO SEND INTO AN AREA. THOSE WHO DO SHOW UP CARRY A FILE INVENTORY OF APPROXIMATELY 30 CASES PER ADJUSTER.

SOME SPECIAL PROBLEMS AT THE OUTSET WHICH IMPAIRED THE START-UP INCLUDED THE ADJUSTER SITUATION WHICH WE JUST DISCUSSED, AND, APPARENTLY, THERE WAS EVEN A MAJOR COAL CONVENTION IN TOWN WHICH MADE HOTEL ACCOMMODATIONS VERY HARD TO COME BY. IN ADDITION, TEMPORARY OFFICE PERSONNEL HAD TO BE HIRED FROM ASHLAND, OVER 100 MILES FROM THE PIKEVILLE OFFICE. THE TERRAIN, WHILE BEAUTIFUL, IS VERY RUGGED AND MAKES TRAVEL TO LOCATIONS OF RISKS VERY TIME CONSUMING. OUR PEOPLE FOUND THAT MANY OF THE LOSS REPORTS GAVE GENERAL DELIVERY ADDRESSES AND THAT, GENERALLY, THE INSUREDS WERE SCATTERED THROUGHOUT MOUNTAINOUS AREAS WITH STREET NAMES OR ROUTE NUMBERS NOT BEING AVAILABLE. SOME ADJUSTERS WERE OVERLOADED WITH WORK AND FILES HAD TO BE REASSIGNED.

OTHER PROBLEMS AFFECTING THE OPERATION OF THE FICO IN THE FIRST FEW WEEKS WERE DISCERNED FROM THE MEDIA, FROM THE COMPLAINTS OF POLICYHOLDERS AND INQUIRIES FROM MEMBERS. STEPS WERE TAKEN TO ALLEVIATE THESE PROBLEMS WHICH WE WILL CHARACTERIZE AS COMING TO US FROM EXTERNAL SOURCES LIKE NEWSPAPER ARTICLES AND FROM INTERNAL SOURCES WHERE MANAGEMENT DISCOVERED THEM. FOR EXAMPLE, ONE NEWSPAPER ARTICLE ON MAY 24 INDICATED THE PERCEPTION THAT BY THE 23RD OF MAY 1,000 CLAIMS SHOULD HAVE BEEN PROCESSED. GIVEN THE ADJUSTER STANDARD OF REQUIRING A PRELIMINARY REPORT 10 TO 15 DAYS FROM ASSIGNMENT OF LOSS, AND SINCE WE BEGAN ASSIGNING LOSSES ON MAY 11, THE FIGURES WERE CHECKED OUT AND AS OF MAY 30, THE FICO HAD RECEIVED AND WAS PROCESSING APPROXIMATELY 1,200 PRELIMINARY REPORTS FROM ADJUSTERS. ALSO, IN PROCESS WERE 800 FINAL REPORTS INVOLVING CLOSINGS, WITH 132 CHECKS BEING ISSUED TO POLICYHOLDERS ON THAT DAY--THIS FROM OUR STATISTICAL REPORT, #3025.

IN THE SAME ARTICLE, THE PROGRAM WAS CRITICIZED FOR BEING SLOW TO GET ADJUSTERS INTO THE AREA AND FOR NOT SENDING ENOUGH OF THEM TO HANDLE CLAIMS, BUT AS WE POINTED OUT, ADJUSTERS ARE INDEPENDENT CONTRACTORS.

WHILE WE RECOGNIZE THAT ERRORS OF JUDGMENT PRODUCE PROBLEMS IN EVERY OPERATION, INCLUDING OUR FICO OPERATIONS, NO HUMAN BEING OR GROUP OF HUMAN BEINGS ARE WITHOUT FLAW. NOTWITHSTANDING THAT, OUR BUSINESS, AS WE PERCEIVE IT, IS TO GET CLAIMS PAYMENTS INTO THE HANDS OF OUR POLICYHOLDERS AND CLOSE CLAIMS. ALLOWING FOR THE CORRECTION OF ERRORS, SO LONG AS CLAIMS ARE CLOSED IN A GIVEN FICO AT THE SAME RATE OF CLOSURE AS IS PRODUCED IN OUR OTHER FICO OPERATIONS, WE FEEL THAT THE FICO IS BEING SUCCESSFULLY RUN. TO REACH THIS GOAL, WE MONITOR CLAIMS CLOSING RESULTS AND MAKE ADJUSTMENTS IN OUR OPERATIONS, IN EVERY FICO SITUATION, TO KEEP THAT

STEADY GROWTH OF CLOSINGS COMMENSURATE WITH PRODUCTION IN OTHER CATASTROPHE EVENTS. WE MAKE ADJUSTMENTS ALONG THE WAY TO ASSURE THIS STEADY CLIMB TOWARD CLOSURE.

FOR EXAMPLE, ON MAY 25, WE DIRECTED THAT TWO GENERAL ADJUSTERS BE DISPATCHED TO LOCAL ADJUSTERS' OFFICES TO STRESS THE NEED TO CLOSE FILES AND THAT A NOTICE BE PUT IN EVERY ADJUSTER MAILBOX AT THE FICO URGING INCREASED PRODUCTIVITY. AT THAT TIME, I PERSONALLY CALLED THE CATASTROPHE VICE PRESIDENT OF THE LARGEST ADJUSTING FIRM IN THE COUNTRY, WHICH WAS SERVING THE FICO, AND HE AGREED TO IMPRESS UPON THEIR ADJUSTERS THE NEED TO CLOSE FILES QUICKLY. AT THE SAME TIME, THE ADMINISTRATOR AUTHORIZED THE NFIP ADJUSTERS TO MAKE PARTIAL PAYMENTS TO POLICYHOLDERS WHO WERE ALSO RECIPIENTS OF DISASTER ASSISTANCE UNDER FEMA'S MINIMAL REPAIR PROGRAM, LEAVING THE TECHNICAL EXAMINING OF THE FILES TO BE ACCOMPLISHED BEFORE THE FINAL PAYMENT WAS MADE. A SIGN WAS HUNG IN THE FICO OFFICE EXHORTING ADJUSTERS TO ENCOURAGE PARTIAL PAYMENTS. ONE OF FIA'S ASSISTANT ADMINISTRATORS VISITED THE FICO ON MAY 21 TO DO WHAT HE COULD TO ASSURE GOOD SERVICE AND ESTABLISH OPERATIONAL CONTROLS.

ON MAY 30, WHEN WE HAD RECEIVED ALMOST 3000 CLAIMS AND HAD 143 ADJUSTERS IN THE AREA, 100 OF WHICH WERE SERVING KENTUCKY, WE DIRECTED THAT TWO ADDITIONAL CLAIMS EXAMINERS BE SENT TO THE FICO, IN ANTICIPATION OF RECEIVING WORK THAT WAS NOT EVEN THERE YET, OR THAT FILES BE SHIPPED TO LANHAM FOR REVIEW.

ON JUNE 10, 1984, A LEXINGTON NEWSPAPER DETAILED A NUMBER OF PROBLEMS WITH WHICH WE WERE ALREADY AWARE, AND WHICH CENTERED MOSTLY ON THE ADJUSTER RESOURCE ISSUE, THE TERRAIN DIFFICULTIES, AND REASSIGNMENTS OF LOSSES WHICH CAUSED SOME CONFUSION, RESULTING IN SLOW PROCESSING OF CLAIMS. ABOUT THE SAME TIME AS THIS ARTICLE WAS BEING PUT TOGETHER, FIA MET WITH NFIP MANAGEMENT IN LANHAM, ON JUNE 8, AND DIRECTED THE FOLLOWING ACTIONS:

1. THAT A CLAIMS MANAGER BE SENT TO THE FICO OFFICE TO TAKE CHARGE AND HOLD A MEETING WITH THE ADJUSTERS. THIS WAS DONE ON JUNE 12.
2. THAT A PRACTICE BE ESTABLISHED OF SHIPPING BY AIR EXPRESS EXCESS FILES WITH FINAL REPORTS TO LANHAM FOR EXAMINATION AND FOR CHECK PROCESSING, AND
3. THAT CLAIM STAFF IN LANHAM BE PLACED ON SATURDAY DUTY TO PROCESS THE PIKEVILLE CLAIMS.

ALL THIS WAS DONE.

OUR BUSINESS ACTIVITY ON JUNE 12, A MONTH AFTER THE FICO OPENED, INDICATES ROUGHLY 3000 KENTUCKY CLAIMS RECEIVED AS AGAINST 900 CLAIMS CLOSED, FOR A DOLLAR AMOUNT PAID OF ALMOST $9 MILLION, AT A CLAIMS CLOSURE RATE OF APPROXIMATELY 30%. IN ADDITION, 750 FINAL REPORTS HAD BEEN RECEIVED AS WELL AS ALMOST 1900 PRELIMINARY REPORTS.

I THINK A DISCUSSION IN RESPECT TO THE REASSIGNMENT OF LOSSES WOULD BE INFORMATIVE. THIS COMES ABOUT WHEN AN ADJUSTER IS OVERLOADED OR NOT PRODUCING, AS INDICATED EARLIER, AND GENERALLY FOLLOWS AN AUDIT OF FILES BY A NFIP GENERAL ADJUSTER. FILES ARE ALSO REASSIGNED EARLY IN THE OPERATION OF A FICO BECAUSE AT TIMES AGENTS, WHO ARE AUTHORIZED TO ASSIGN LOSSES UNTIL NOTIFIED THAT THE FICO HAS BEEN ESTABLISHED, OFTEN ASSIGN TOO MANY LOSSES TO ONE FIRM, AND THESE MUST BE REDISTRIBUTED. WE REDISTRIBUTE LOSSES BECAUSE WE FEEL THAT EVERY FIRM, INCLUDING THE LOCAL FIRMS, SHOULD GET A FAIR SHARE OF THE WORK AND THAT THE LARGE NATIONAL FIRMS WHO HAVE CONSIDERABLE ADJUSTER RESOURCES SHOULD NOT BE OVERLOADED. WE KEEP AN EYE ON THAT 30 FILE PER ADJUSTER RUNNING CASE LOAD.

NOW, THE ASSIGNMENT OF LOSSES BY AGENTS HAS ITS GOOD POINTS AND ITS BAD POINTS. THE BAD POINT APPARENTLY EVERYONE SAW AND IT WAS COMPLAINED OF, NAMELY THAT IT LEADS TO SOME CONFUSION AND IN THE REASSIGNMENT PROCESS SOME INSUREDS MAY NOT BE CONTACTED FOR AS MUCH AS A FEW WEEKS FOLLOWING REASSIGNMENT. THIS IS ERROR BORN OF THE HUMAN CONDITION. ERRORS ARE MADE AND WHEN DISCOVERED WE TRY TO CORRECT THEM PROMPTLY. THE GOOD SIDE OF AGENT ASSIGNMENT IS THIS: PRIOR TO EARLY 1978, AGENTS WERE NOT AUTHORIZED TO ASSIGN LOSSES. WE HAD SOME TREMENDOUS COASTAL ICE STORMS ALONG THE NORTH EASTERN PART OF THE COUNTRY AT THAT TIME AND PEOPLE WERE LITERALLY STANDING IN ICE WAITING FOR ADJUSTERS BECAUSE THE AGENTS HAD TO REPORT THE LOSSES FIRST TO THE, THEN, SERVICING AGENT IN MARYLAND, WHEREUPON THE SERVICING AGENT HAD TO LOCATE AN ADJUSTER IN THE LOCAL AREA AND ASSIGN THE LOSS. FIA MANAGEMENT AT THAT TIME FELT THAT QUICKER SERVICE COULD BE PROVIDED TO THE GREATER NUMBER OF POLICYHOLDERS BY PERMITTING AGENT ASSIGNMENT UNTIL A LOCAL FICO COULD BE ESTABLISHED TO CONTROL THE ASSIGNMENTS, KNOWING THAT THERE WOULD BE SOME DISCONNECTS AND CONFUSION IN THE REASSIGNMENT PROCESS. THE POINT IS THAT THE GREATER GOOD WAS PERCEIVED TO BE THAT THE VAST MAJORITY OF OUR POLICYHOLDERS WOULD BENEFIT BY THE PROMPT SERVICE, WHICH AGENT ASSIGNMENTS ENGENDER, AND WOULD LOSE MORE IF AGENTS WERE NOT AUTHORIZED TO MAKE THE ASSIGNMENTS. I BELIEVE THIS SYSTEM, WHICH BALANCES EARLY, PROMPT SERVICE AGAINST SUBSEQUENT REDISTRIBUTION OF LOSS ASSIGNMENTS TO ACHIEVE THAT FAIR SHARE OF WHICH I SPOKE,

STILL SERVES THE GREATER COMMON GOOD OF ALL OF OUR POLICYHOLDERS. I SINCERELY REGRET THAT ANY POLICYHOLDER'S FILE FELL OFF THE TRACK EVEN TEMPORARILY. IT IS JUST THAT EXPERIENCE SHOWS THAT THIS IS THE BEST WAY TO OPERATE. THE SERVICING AGENT HAS TIGHTENED-UP ITS RECORDKEEPING CONTROLS AND IS TRACKING REASSIGNMENTS MORE EFFECTIVELY.

GETTING BACK TO THE FICO OPERATION, TO AFFIRM THE INSTRUCTIONS GIVEN AT THE SECOND ADJUSTER MEETING OF JUNE 12, ALL ADJUSTERS WERE SENT A NOTICE ON JUNE 13, 1984, REMINDING THEM TO DISCUSS PARTIAL PAYMENTS WITH INSUREDS TO ALLEVIATE FINANCIAL HARDSHIPS AND TO INDICATE IN THEIR PRELIMINARY REPORTS THAT THIS HAD BEEN DONE.

WE WOULD NOW LIKE TO GET INTO SOME OF THE INTERNAL PROBLEMS THAT NFIP DISCOVERED AND MADE ADJUSTMENTS FOR, WHILE THE PROGRAM MANAGEMENT WAS STILL MONITORING CLOSURE RATES, TO ASSURE THE ATTAINMENT OF THE GOAL THAT THE CLOSINGS BE ACCOMPLISHED AS QUICKLY OVERALL IN THIS FICO AS HAD BEEN DONE IN OTHER FICO'S.

ONE OF THE PROBLEMS IS THE REASSIGNMENT PROBLEM WHICH RESULTED IN MANY INSUREDS BEING OUT OF CONTACT WITH THEIR ADJUSTERS. THERE WERE ALSO COVERAGE QUESTIONS, AND HERE WE ARE TALKING OF CASES OF LAPSED POLICIES, WHERE PEOPLE THOUGHT THEY HAD INSURANCE BUT DID NOT, COVERAGE ON THE WRONG BUILDING, AND OTHER COVERAGE ISSUES.

TO ADDRESS THESE PROBLEMS, THE FICO MANAGEMENT COMMENCED, ON OR ABOUT JUNE 13, A FILE-BY-FILE PURGE OR EXAMINER REVIEW OF EVERY OPEN FILE IN THE OFFICE TO MAKE SURE THAT ADJUSTERS HAD CONTACTED THE POLICYHOLDERS INVOLVED. IN CONDUCTING THIS PURGE, FICO STAFF CALLED THE ADJUSTERS, AS WELL AS THE POLICYHOLDERS, TO MAKE SURE THAT CONTACT WAS MADE. IT WAS FOUND THAT IN MANY OF THE CASES THE INITIAL CONTACT HAD BEEN MADE BUT THE FOLLOW-UP HAD NOT. OF COURSE, WE HAVE TO RECOGNIZE THAT FOR EVERY POLICYHOLDER WHO MOST REGRETABLY IS OUT OF CONTACT WITH THE ADJUSTMENT PROCESS, THE OTHER SIDE OF THE COIN IS THAT THAT VERY SITUATION MEANS THAT OTHER POLICYHOLDERS ARE BEING SERVED EVEN QUICKER THAN THEY NORMALLY WOULD HAVE BEEN SERVED. THE UNFORTUNATE TRUTH ABOUT ANY FICO OPERATION, AND SOMETHING ABOUT WHICH WE CAN DO NOTHING, IS THAT SOMEONE HAS TO BE LAST. WE WISH WE COULD SERVE ALL OUR POLICYHOLDERS IMMEDIATELY AND FIRST, BUT BY THE VERY NATURE OF THINGS, IT CAN'T BE DONE. AGAIN, AS I POINTED OUT EARLIER, THE BOTTOM LINE IS THAT WE CLOSE CASES, AND I BELIEVE WE ARE DOING SO IN THIS FICO AS WELL AS IN ANY OTHER.

RETURNING TO THE REASSIGNMENT AND COVERAGE RESOLUTIONS PROBLEMS EXPERIENCED BY SOME POLICYHOLDERS, THE PURGE OF FILES DID SHOW, FOR EXAMPLE, THAT ONE

FIRM HAD SOME 20 LOSSES REMOVED FOR REASSIGNMENT TO ANOTHER ADJUSTING FIRM BUT THAT THESE POLICYHOLDERS HAD NOT BEEN RECENTLY CONTACTED AND SOME HAD NOT BEEN CONTACTED AT ALL. THE PURGE RESULTED IN EVERY POLICYHOLDER WHOSE FILE DID NOT SHOW ANY RECENT ACTIVITY BEING CONTACTED, AND, IN SOME CASES, NEW ADJUSTERS WERE ASSIGNED.

OF THE COVERAGE ISSUES WHICH CAME UP AT THIS TIME, SOME 60 OF THESE INCLUDED WHAT WE CALL ALPHA CASES. THESE ARE CASES WHERE THE WRONG POLICY NUMBER WAS GIVEN TO US BY AN AGENT OR THERE WAS NO RECORD OF A POLICY AND THE NAMES OF THESE POLICYHOLDERS HAD TO BE SEARCHED THROUGH OUR ALPHA RECORDS TO FIND OUT WHETHER OR NOT THERE WAS COVERAGE IN EFFECT.

THERE WERE ANOTHER HUNDRED AND THIRTY COVERAGE ISSUES INVOLVING QUESTIONS AS TO WHETHER COVERAGE HAD LAPSED, WHETHER PREMIUMS HAD BEEN PAID, AND WHETHER, IN SOME CASES, THE POLICIES WERE UNINTENTIONALLY MISRATED BY THE INSUREDS. IN THE CASE OF THE MISRATINGS, THIS USUALLY INVOLVES THE GOVERNMENT RECEIVING INSUFFICIENT PREMIUM FOR THE RISK AS A RESULT OF THE MIS-INFORMATION ON THE INSURED'S APPLICATION FOR INSURANCE.

PRIOR TO A POLICY CHANGE MADE BY THE ADMINISTRATOR A COUPLE OF YEARS AGO, THE PROGRAM WOULD HAVE HAD LITTLE CHOICE BUT TO DENY COVERAGE FOR FAILURE OF CONSIDERATION, BUT THE ADMINISTRATOR, SEEING THE INEQUITY IN SUCH SITUATIONS, AMENDED THE POLICY TO PROVIDE POLICYHOLDERS WITH AN OPPORTUNITY TO REFORM THE POLICY BY PAYING THE CORRECT PREMIUM AND PLACING THE COVERAGE IN EFFECT EVEN AFTER THE LOSS HAD ALREADY OCCURRED.

AT THE TIME OF THIS FILE PURGE, WE AUTHORIZED WAIVER OF THE CONTRACTUAL REQUIREMENT THAT THE PROOF OF LOSS BE SUBMITTED BY THE POLICYHOLDER IN THE INTEREST OF HASTENING SETTLEMENTS AND ALSO AUTHORIZED THE SERVICING AGENT AND GENERAL ADJUSTERS TO, IN ADDITION TO THEIR OWN AUDITING WORK, ACTUALLY ADJUST LOSSES WITH POLICYHOLDERS. THESE ACTIONS WERE TAKEN AROUND THE MIDDLE OF JUNE.

THE FOLLOWING WEEK WE DIRECTED THAT THREE MORE GENERAL ADJUSTERS BE SENT TO PIKEVILLE TO AUDIT FIRMS AND ADJUST LOSSES AND THAT MORE EXAMINERS BE SENT TO PIKEVILLE AS SOON AS A BUILD UP OF FINAL REPORTS AT THE FICO OCCURRED. AT THAT TIME, WHICH WAS APPROXIMATELY JUNE 22, THERE WERE ONLY 50 FINAL REPORTS IN THE FICO OFFICE AWAITING REVIEW. WE ALSO INSTRUCTED THE SERVICING AGENT TO CONTINUE SHIPPING FINAL REPORTS TO LANHAM FOR REVIEW AND PAYMENT. BY JUNE 26,

THE KENTUCKY CLAIMS WERE OVER 50% CLOSED, 80% OF THE COVERAGE ISSUES HAD BEEN RESOLVED, THE REMAINING POLICYHOLDERS WITH COVERAGE PROBLEMS HAD ALL BEEN CONTACTED BY ADJUSTERS, AND THERE WERE NO MORE THAN A HUNDRED FILES STILL IN THE OFFICE AWAITING A FIRST REPORT. GENERAL ADJUSTER AUDITS HAVE SINCE CLEARED THIS UP.

ANOTHER INTERNAL PROBLEM RELATES TO DIFFICULTIES ENCOUNTERED WITH THE TELEPHONE SYSTEM. FOR EXAMPLE, IN THE BEGINNING, ONE PRIVATE AND TWO PUBLIC TELEPHONE NUMBERS WERE INSTALLED AT THE CONTROL OFFICE, AND THESE DID NOT HAVE "ROLL-OVER" CAPABILITY; THAT IS, THE CAPABILITY OF A CALL BEING TRANSFERRED TO THE NEXT TELEPHONE LINE IN A NUMBERED SEQUENCE WHEN THE ACTUAL NUMBER CALLED IS BUSY. THIS WAS NOT OF GREAT IMPORTANCE SINCE ONLY TWO LINES WERE INVOLVED. THEN ON MAY 21, AT THE FICO OFFICE, FOUR NEW PUBLIC NUMBERS WERE INSTALLED IN ADDITION TO THOSE PREVIOUSLY USED AT THE FICO OFFICE. INEXPLICABLY, I CANNOT ACCOUNT FOR WHY THE TELEPHONE COMPANY DID NOT RECOMMEND AND INSTALL ROLL-OVER PHONES AND, FOR THAT MATTER, WHY OUR FICO SET-UP STAFF DID NOT REQUEST THEM. IN ANY EVENT, THE SERVICING AGENT SENT A TELECOMMUNICATION SPECIALIST TO THE FICO WHO CONFIGURED THE INSTALLATION OF THE SIX LINES IN SUCH A WAY AS TO ALLOW FULL ROLL-OVER BETWEEN THE NUMBERS. THIS WAS ACHIEVED WITH NFIP EQUIPMENT INTERNAL TO THE FICO. THE TELEPHONES WERE TESTED AND FOUND TO ROLL OVER PROPERLY. WHAT THEY DID NOT KNOW AT THAT TIME WAS THAT TWO OF THE NEW NUMBERS ASSIGNED BY THE TELEPHONE COMPANY DID NOT ACTUALLY BELONG TO THE FICO. SO WE BEGAN WITH TELEPHONE LINES WHICH DID ROLL OVER. UNFORTUNATELY, AT THE FICO, FICO STAFF SUBSEQUENTLY MOVED THE TELEPHONE EQUIPMENT TO A NEW LOCATION RESULTING IN A DISCONNECT IN THE ROLL-OVER PROCEDURE. THUS, WITHIN THE FICO, THE THEN MANAGEMENT PRESUMPTION WAS ONLY THAT THE OUTSIDE CALL VALUME WAS LOW. OUTSIDE CALLERS, ON THE OTHER HAND, HEARD THE TELEPHONE RINGING ON TRYING TO PLACE A CALL BUT THE TELEPHONES WERE NOT RINGING AT THE FICO NOR WERE THE LIGHTS FLASHING.

ALL LINES NOW WORK PROPERLY BECAUSE WHEN THIS WAS DISCOVERED, IN MID JUNE, THE NFIP DISPATCHED ANOTHER TELECOMMUNICATION SPECIALIST WHO RECONFIGURED THE LINES SO AS TO ASSURE THAT THEY FUNCTIONED PROPERLY.

THERE WERE FOUR OTHER PRIVATE LINES USED BY ADJUSTERS WHICH APPARENTLY WORKED PROPERLY THROUGHOUT. THEREFORE, IT IS IMPORTANT TO NOTE THAT SERVICE LEVELS WERE MAINTAINED BECAUSE ADJUSTERS WERE ABLE TO COMMUNICATE WITH THE FICO AND FICO STAFF WAS ABLE TO COMMUNICATE WELL WITH THE ADJUSTERS, BUT THE PUBLIC PROBLEM WAS THAT

THE PUBLIC DID NOT KNOW THIS NOR COULD THE PUBLIC GET THROUGH TO THE FICO AS WELL AS IT SHOULD HAVE BEEN ABLE TO.

THE TWO INOPERABLE NUMBERS WHICH HAD BEEN ASSIGNED BY THE COMPANY HAVE BEEN REPLACED AND, IN ALL, THERE ARE ROUGHLY 15 OPERATIONAL LINES NOW DIALING INTO THE PIKEVILLE FICO. WITH THESE CHANGES AND RECONFIGURATIONS OF LINES, THE SITUATION BEGAN TO BE CORRECTED ABOUT JUNE 21. WE REGRET ANY INCONVENIENCE TO THE PUBLIC, BUT BELIEVE AT LEAST THE PUBLIC CAME AWAY WHOLE IN THIS CASE SINCE WE WERE ABLE TO MAINTAIN SERVICE LEVELS THROUGH THE ADJUSTERS.

IN ANOTHER ACTION TO SPEED UP CLAIM PROCESSING, AND TO AVOID THE PROBLEM PRESENTED BY PROPERTY INSURANCE POLICIES, BOTH IN THE PRIVATE SECTOR AND AS TO OUR INSURANCE CONTRACT, THE NFIP ISSUED A NOTICE TO ALL POLICYHOLDERS, AGENTS AND ADJUSTERS RELATIVE TO ANY PENDING CLAIMS URGING ALL CONCERNED TO ATTEND TO THE SUBMISSION OF "PROOFS OF LOSS BY JULY 7, 1984, OR AS SOON THEREAFTER AS POSSIBLE." PRESS RELEASES WERE ALSO ISSUED REGARDING THE NEED TO SUBMIT PROOFS OF LOSS. THIS IS A VERY IMPORTANT POINT BECAUSE THE POLICY, LIKE THE HOMEOWNERS POLICY, REQUIRES THE INSURED TO SUBMIT THE PROOF OF LOSS, WHICH IS THE INSURED'S STATEMENT OF CLAIM, WITHIN 60 DAYS OF THE LOSS.

AS WE POINTED OUT EARLIER, THE INSURANCE PROGRAM IS NOT A PROGRAM OF ASSISTANCE BUT IS A PROGRAM OF INSURANCE PREDICATED UPON AN INSURANCE CONTRACT, RIGHTS, AND DUTIES AMONG THE PARTIES, AND TERMS AND CONDITIONS WHICH MUST BE ADHERED TO. ORDINARILY, WE COULD BE CRITICIZED FOR NOT REQUIRING A POLICYHOLDER TO COMPLY WITH THE TERMS OF HIS OR HER CONTRACT WITH THE GOVERNMENT. THE ADMINISTRATOR, HOWEVER, UNDER THE POLICY AND APPROPRIATE REGULATIONS, HAS THE AUTHORITY TO WAIVE POLICY PROVISIONS, AND HE HAS DONE SO IN THE CASE OF THE TIMELY FILING OF THE PROOF OF LOSS, RECOGNIZING, ESPECIALLY IN A FICO SITUATION, THAT IT WOULD BE UNFAIR TO REQUIRE STRICT ADHERENCE TO POLICY STANDARDS. THEREFORE, THESE LETTERS URGE PEOPLE, AGENTS, AND ADJUSTERS TO CONCLUDE THEIR FILINGS AS RAPIDLY AS POSSIBLE BUT DO NOT ANNOUNCE THE POSITION THAT THE GOVERNMENT WILL STAND ON THE STRICT TERMS OF THE POLICY AND DENY CLAIMS FROM PEOPLE INVOLVING LATE FILINGS OF PROOFS OF LOSS.

AT THE TOWN MEETING THIS AFTERNOON, WE WILL ASK ANYONE WHO IS HAVING DIFFICULTY CONCLUDING HIS OR HER CLAIM TO LET US KNOW ABOUT IT SO THAT WE CAN CARRY THAT POLICYHOLDER'S NAME AND POLICY NUMBER BACK TO LANHAM AND TO THE FICO TO RESEARCH THE CASE AND EXPEDITE ITS RESOLUTION.

AS I SAID EARLIER, WE MONITOR THE RATE OF CLOSURES AS THE BAROMETER OF WHETHER OR NOT THE FICO IS PERFORMING AT REASONABLE LEVELS. THIS IS ROUTINELY DONE AT ALL FICO'S. IN THIS CONNECTION, WE NOTE THAT FICO 512, ON JULY 2, REFLECTED 2029 CLOSED KENTUCKY FILES, FOR A 59.4% CLOSURE RATE. TWO DAYS LATER, THE RATE WAS AT 64%, AND THE RATE OVERALL, INCLUDING THE WEST VIRGINIA FILES, WAS AT 62%. AT THAT TIME, TO ASSURE THIS STEADY CLIMB, SEVEN MORE NFIP GENERAL ADJUSTER/EXAMINER PROFESSIONALS WERE ASSIGNED TO REPORT TO THE FICO, AND THEN TO SPREAD OUT INTO THE AREA IN A WAY THAT WOULD MAKE SURE THAT, IN CLUSTERS OF TWO OR THREE, EACH ADJUSTING FIRM WOULD BE MONITORED DAILY BY A GENERAL ADJUSTER, STAYING IN THE AREA OF THESE FIRMS. WE DID NOT WANT THEM TO BE IN PIKEVILLE, BUT RATHER THAT THEY STAY IN THE FIELD WHERE THEY WOULD DO THE MOST GOOD. THESE GENERAL ADJUSTERS ARE DOING THEIR ASSIGNED DUTIES NOW, ARE AUDITING CLAIMS, ARE CONTACTING INSUREDS, AND ARE BRINGING ABOUT FINAL REPORTS FROM ADJUSTERS UPON WHICH THE FICO CAN PAY CLAIMS.

AT THAT TIME, THE CLOSURE REPORTS INDICATED THAT THREE OF THE MAJOR FIRMS IN THE AREA WERE SLOW ON CLOSINGS. I WAS OUT AT THE LANHAM OFFICE THAT DAY AND PERSONALLY CALLED THE EXECUTIVE VICE PRESIDENT OF THE LARGEST FIRM INVOLVED WHO ASSURED US THAT HIS ADJUSTER WORK WOULD BE IN THE DOOR OVER THE WEEKEND SO THAT THAT FIRM WOULD BE 90% CLOSED. WE UNDERSTAND THAT THIS HAS HAPPENED.

BY THE WAY, AT THIS POINT OF TIME, REFERRING BACK TO THAT COVERAGE ISSUE SITUATION, THE NFIP WAS DOWN TO NINE POLICY QUESTIONS REGARDING THE ALPHA SITUATION IN RESPECT TO ALL OF WHICH WE WERE AWAITING INFORMATION FROM AGENTS. IN ADDITION, THERE REMAINED ONLY 10 GENERAL COVERAGE QUESTIONS.

ON JULY 9, LAST MONDAY, THE KENTUCKY CLAIMS AT FICO 512 WERE 79% CLOSED, AND AS OF CLOSE OF BUSINESS JULY 11, THE FICO WAS 84% CLOSED. TO BE 84% CLOSED, SIXTY DAYS AFTER OPENING THE OFFICE, IS IN THE BEST TRADITIONS OF THE INSURANCE INDUSTRY, ESPECIALLY WHERE THE AVERAGE CLAIM COST IS RUNNING WELL OVER $10,000. MOREOVER, THESE CLOSURE RATES ARE NOT ONLY THE EQUIVALENT OR BETTER THAN THOSE ACHIEVED IN MANY OTHER FICO'S BUT EQUATE WELL WITH THE RESULT ACHIEVED BY FEMA'S DISASTER ASSISTANCE PROGRAM, WHICH HAS DONE, BY ALL ACCOUNTS, A MARVELOUS JOB OF ASSISTING THE RESIDENTS OF EASTERN KENTUCKY IN RECOVERING FROM THIS DIASTER. IN THIS CONNECTION, I NOTE THAT AS OF LAST TUESDAY WHEN THE NFIP HAD 82% OF ITS KENTUCKY CLAIMS CLOSED, OUR DISASTER OFFICIALS INDICATED IN THE "KENTUCKY NEWS BRIEFS" THAT 88% OF THE FLOOD DISASTER VICTIMS ELIGIBLE FOR TEMPORARY HOUSING HAD RECEIVED ASSISTANCE. THESE FIGURES REPRESENT SOME 1700 OUT OF 1900 APPLICATIONS.

I REFERRED EARLIER TO THE COOPERATIVE EFFORTS THAT THE NFIP ENGAGED IN WITH FEMA'S MINIMAL REPAIR PROGRAM, WHICH IS PART OF THE TEMPORARY HOUSING PROGRAM, AND NOTE THAT AS OF JUNE 29, WE HAD HANDLED, BY WAY OF PARTIAL PAYMENTS UNDER THE FLOOD INSURANCE CONTRACT, 239 TEMPORARY HOUSING/MINIMAL REPAIR APPLICANTS WHO OTHERWISE WOULD HAVE HAD TO HAVE BEEN HANDLED BY THE DISASTER ASSISTANCE PROGRAM, AT AN AVERAGE PAYMENT OF $892.78. OBVIOUSLY, WE ARE PLEASED TO HAVE ASSISTED FEMA'S DISASTER ASSISTANCE PROGRAM IN ITS WORTHWHILE EFFORTS WHILE TAKING ADVANTAGE OF OPPORTUNITIES TO MAKE NFIP PARTIAL PAYMENTS.

AT THAT POINT OF TIME, WHICH WAS THE END OF THE FIRST WEEK OF JULY, THE NFIP HAD PAID OUT $23-1/2 MILLION IN FLOOD INSURANCE PAYMENTS ARISING OUT OF THE MAY FLOODS FOR AN AVERAGE CLAIM COST OF $11,395. WE WILL CONTINUE OUR EFFORTS TO BRING THE FICO TO A RAPID CONCLUSION AND BELIEVE THAT EVERYTHING HUMANLY POSSIBLE WAS DONE TO BRING THE WORK ALONG AT A REASONABLE LEVEL, OVERCOME HUMAN ERROR, AND, IN A MANAGEMENT SENSE, MAKE ALL THE MID-STREAM DECISIONS AND CORRECTIONS WHICH WERE NECESSARY TO STAY ON COURSE. WE TAKE THESE ACTIONS IN EVERY CATASTROPHE EVENT, TO ENSURE COMPLIANCE WITH NFIP STANDARDS. THAT COURSE HAS PRODUCED A CLOSURE RATE FOR KENTUCKY CLAIMS OF ___% AS OF JULY 14, 1984.

THIS CONCLUDES OUR TESTIMONY, AND WE WILL BE PLEASED TO ANSWER ANY QUESTIONS.

NONDEPARTMENTAL WITNESSES

Senator HUDDLESTON. We've been advised that Commissioner Gilbert McCarty of the Department of Insurance, Commonwealth of Kentucky, and Secretary Melvin Wilson, Cabinet for Public Protection and Regulation, have not been able to arrive yet.

They were attempting to fly in and encountered, I am sure, the cloudy weather that we saw, too. Except for the good service we had from the adjutant general, we might not have gotten here either.

As you know, the State government is very interested in the flood insurance problems and they've been attempting to help in every way possible. We will, of course, take testimony from Commissioner McCarty and Secretary Wilson and include it in the record of these hearings.

STATEMENT OF JUDGE REUBEN WATTS, KENTUCKY RIVER AREA DEVELOPMENT DISTRICT

ACCOMPANIED BY JUDGE PAUL H. SALYER, BIG SANDY AREA DEVELOPMENT DISTRICT

Senator HUDDLESTON. We do have Judge Reuben Watts, Kentucky River Area Development District.

Judge Watts, we'd like to hear from you briefly. and Judge Salyer from Big Sandy is here and, Judge, you can come on up, too, if you like.

Judge, go right ahead.

Judge WATTS. Thank you, Senator Huddleston for coming here today and showing your interest in helping us in this flood-damaged time. We also want to thank Senator Ford, Congressman Carr, and Congressman Hal Rogers for their help.

Immediately following the last flood acting on the request made by local officials, our government petitioned the President, requesting several areas of Kentucky to be declared a disaster area.

VITAL ISSUES CAUSING DISASTER AREA DECLARATION

The President did give us the declaration, for which we are all very grateful. Now, there are two or three vital issues that I'd like to discuss causing this declaration.

I know it takes a reasonable amount of time to evaluate the flood damage and place a cost figure on damage repairs. However, I cannot believe that it is mandatory that we, the victims, of damage to county and city roads should be compelled to wait for a period of 2 to 4 months before we receive any emergency money.

Another issue I would like to discuss is the procedure for determin-

ing the amount of restitution or damage money. For example, the Corps of Engineers had two representatives assigned to our county. We assigned two of our county employees to travel with the engineers. They viewed all the damage done to the county roads and bridges and set a figure on each damage site.

Then they passed these reports to FEMA who, in turn, made the final decision. In some cases the final decision was reasonable, near the projected figure. However, in other cases the amount was drastically reduced.

I feel the Corps of Engineers were professionally trained construction personnel and their decision should be final. I feel the system is wrong that allows another agency to override the decision made by any agency in their professional field.

As a result of my experience in working with the American Red Cross disaster teams for over 30 years, going through two floods and one tornado within our county, I respectfully make the two following recommendations:

REVISION OF SYSTEM PROPOSED

One, the Federal disaster administrative team be made to revise their system to be more compatible to the needs of the victims and reduce the time required to get disaster relief funds into the hands of the local people and the local officials. I hope we should encourage them to bear in mind that emergency relief is emergency and immediate relief.

Second, in cases where damage is related to roads and bridges and building damages, the Corps of Engineers have decisive authority to evaluate the damage and set amounts in the disaster area, all in one process.

However, I do believe the local officials should be given the right to appeal with the stipulation that the appeal not delay the allocation of funds necessary in alleviating public suffering.

LOCAL CLAIMS OFFICE PROPOSED

Last, a claims office authorized to pay claims to be set up in the damaged county. The bottom line is that it's been my experience, after talking with my people, that it takes too long for disaster relief funds to reach the local level.

Finally, local officials or officials at the local level are not given enough voice in the determining or assessing the amount of damage done.

As for a comment on flood control insurance, I would like to make an example from my county. Countywide, we are not a member of the flood insurance program. This is common knowledge, although we do have three small cities that are members.

In discussions with people that are in these cities that have businesses in the flood insurance zone, I find that 15 to 25 percent of them carry flood insurance. The majority of the people and the majority of the business holders in these areas do not carry flood insurance.

Most of us are aware that Letcher County has had two major floods, one in September 1982 and another in May 1984. Practically the same area was damaged by floods and still the people are not carrying flood insurance.

REASONS FOR NOT CARRYING FLOOD INSURANCE

Senator HUDDLESTON. How do you account for that, Judge?

Judge WATTS. In talking with these people, particularly the businessmen, the answer I get is, No. 1, the premium rates are too high. No. 2 is the lack of communication between the insurance agencies or the agency responsible for carrying the insurance and the people.

Senator HUDDLESTON. They're not making an aggressive effort to sell it to them?

Judge WATTS. I think they're making an aggressive effort to sell it but they're not getting over to the business the exact coverage of their insurance policy, what they've got to offer.

Another complaint I here is that the rates are unreasonably high, as I stated before, and the time element from the time of the flood damage to the time that they receive compensation is just too long.

Senator HUDDLESTON. Have you finished your statement?

Judge WATTS. Yes, sir.

STATEMENT OF JUDGE SALYER

Senator HUDDLESTON. OK, let's hear from Judge Salyer.

Judge SALYER. OK, Senator. It is good to be here and we appreciate your interest in coming to help us. I think that every time we need help, it's right down here in eastern Kentucky.

I would like to comment on the insurance program. I think it is a good program, and the fact that we did get it into effect—I think it came in in 1971—and although we have a few problems with it, it is a good program. I'm proud that we've got it.

SLOW ADJUSTER SERVICE

I think probably the worst thing that comes along we have is adjustment claims and taking care of the people soon enough because when we have a flood and people have to leave their homes and stay in motels and they can't get back in until an adjuster comes.

Take my county, for instance. We were flooded four or five times a year. We're used to it. As soon as the floods start receding, we start a cleanup, and most people have, you know, moved the debris and cleaned the mud and stuff out of their houses. Two or three weeks later then the adjuster will come. Well, he don't see the damage that's been done there, and right off they don't receive any benefits for it. So that's part of the problem that we have with them.

Senator HUDDLESTON. Faster service from the adjuster would allow them to see the total picture before the cleanup begins then.

Judge SALYER. That's right.

Senator HUDDLESTON. You can't afford to wait to clean up.

Judge SALYER. Well, most people have to get back into their homes. They have no place to go and, as you'll notice, you know, 50 percent of the people that have these problems are low-income people that build in the flood plains anyway, more than people that can afford it, and they just need faster service to get back into them.

Senator HUDDLESTON. Generally speaking, you think it's a good program, that the people who participate in it are better off or have a better chance of recovering than people who don't participate in it.

Judge SALYER. That's correct.

Senator HUDDLESTON. But procedures ought to be expedited a little bit better.

Judge SALYER. That's right.

Senator HUDDLESTON. Anything else, gentlemen?

BASEMENT PROBLEM

Judge SALYER. Well, I'm glad they brought up that basement deal they were talking about here because we have that same problem, too, and, you know, in order to build in a flood plain you've got to get out of the water. That's the first thing they think of building, a basement, because it's cheaper and they can utilize that space, too. Also, they're not insured for it and it just causes problems not to have insurance on your basement because that's what your house is sitting on most of the time.

Senator HUDDLESTON. Mr. Collins outlined it. Thank you very much. We appreciate both of you coming.

Judge Watts. Thank you, sir.

Judge SALYER. Thank you.

Senator HUDDLESTON. Is Mayor Charles Buchanan of Barbourville here?

STATEMENT OF MRS. BEVERAGE (HENRIETTA) REFFITT, LANGLEY, KY

Senator HUDDLESTON. I'm going to change our procedure just a little bit. Before talking to some of the other officials that are here, I think we can do a better job inqiring of them if we hear from some of the people who directly are involved with flooding, those on the receiving end who have direct experience. So let me call Mrs. Beverage Reffitt.

Is that the way we pronounce the name?

Mrs. Reffitt. R-e-f-f-i-t-t.

Senator HUDDLESTON. I came very close, didn't I?

Mrs. REFFITT. Yes.

TESTIMONY OF MRS. BEVERAGE REFFITT

Senator HUDDLESTON. Do you want to identify yourself and tell us where you're from and then give us a report of your experience?

Mrs. REFFITT. Yes, I will. My name is Henrietta Reffitt. I live at Langley, KY. Most people around here know that as Maytown. We do have national flood insurance. We have carried it for several years thinking that, you know, the time should arise when we would need some security, that we would have it.

We were afflicted with the flood on May 7. The water was 39 inches in our home. We live in a mobile home. As soon as we were able to get back to our house, the water was still running through it. We took a boat and went back in.

I found the box that we kept our papers in, and as soon as I found them, my husband took me in a boat so I could get out and find someplace where I could use a telephone. I called National Flood in Maryland. I told them what our situation was, that we lived in a mobile home, and a member of our family has chronic active liver disease.

She told us that we should immediately get in touch with the agent who wrote our insurance, which I did. She told me, she said, "Someone will approach you no later than Friday," and this was on Tuesday afternoon when I went down there.

So on Friday—in the meantime, we were cleaning and doing the very best that we possibly could do. We lost everything that we had. There was nothing saved except for two pieces of furniture that was carried out through the water. It was damaged, but we did save it.

Everything we had for 30 years of our life was gone down the drain. We waited; we worked; we cleaned. We carried out everything that we had, and on Friday evening I had gone up the street to the little store up there to see if we could get some milk from the store, and I saw across the street this man talking to a friend of ours.

I approached him and asked if he was an adjuster and he said that he was. I told him, I said, "Well, we've called repeatedly trying to get somebody to come out and see what our damages are and to give us some help because we lost everything we had." We had no place to stay. We'd gone to friends. We'd imposed till we couldn't stay with them any longer.

SITUATION COMPLICATED BY FAMILY MEMBER WITH CHRONIC LIVER CONDITION

By that time we had got some sleeping bags and took them into the house and were staying there. We had no electricity. The person in my family that has the chronic active liver disease is supposed to have three hot meals a day. She's supposed to have rest.

We had no refrigerator. We were using coolers to keep what food that we could keep in that for her. We were worried about her condition.

So the man said, "Well, you're not on my list but I can come down and see what the damage is." He came down and he said, "If you can make out an itemized list of what your losses are and bring them down in the morning," he said, "National Flood has told us that we can issue a partial payment," which the gentleman had talked about awhile ago, that we were supposed to get a partial payment or an advancement or whatever.

We stayed up till 4 o'clock that morning at a friend's house trying to make a list of what we had lost. We were to be at Prestonsburg the next morning by 9 o'clock at the office down there.

We got down there. We gave the list to them and he looked at me very arrogantly, I might say, and told me, he said, "I'm sorry. National Flood has decided they're not going to issue any advancements on your insurance."

I said, "Well, what can we do?" I said, "We have no place to go," and I told him again, I said, "I told you repeatedly when I've called trying to get something done that we have a member of our family that needs attention." I said, "This person can't live in this kind of conditions." The rest of us, we can, you know, withstand, but not this person that is sick.

Still, that didn't help either.

Senator HUDDLESTON. Was this person that told you that the same person that you had met in the neighborhood?

Mrs. REFFITT. Yes, yes; it was.

Senator HUDDLESTON. Was he a local person?

Mrs. REFFITT. He was a local adjuster. He said that—I phoned the lady from the agent that had wrote up our insurance. She told me who he would be and when, you know, he would approximately get out, but he said, "Well, you're not on my list," but he said, "My partner has your name on his list so I'll come down and make it."

So when we went down there, he said, no, he couldn't help us. This went on indefinitely. We got the number from Pikeville. We got the hotline number through FEMA that, you know, maybe they could help us.

RED CROSS CENTER INVOLVED

So a friend of ours suggested that we go to the Red Cross center. Well, the gentleman awhile ago said that this terrain up through here is beautiful but it's hard to get to and the adjusters have a problem finding it.

Well, when I went to Allen Central to the Red Cross center up there and told them what our situation was, they immediately wanted to come out and see what our living conditions were to see where this person that is sick, what kind of living environment she was living in. As a matter of fact, they came that same afternoon. They didn't have any problem finding where we live, and when the worker went back and told the Red Cross what our living conditions were, she immediately called Lexington and talked with the person's doctors down there, and the doctors gave her a statement on the phone that our living conditions could be fatal to this member of our family's health.

Again, the Red Cross began to call National Flood at Pikeville to tell them what our situation was, wanting to know when they could get help for us. They got the same runaround that we did. They were either put on hold or they were told, "I'm sorry, we can't get to you. We're working as fast as we can. You're not the only people that's involved in this."

Well, once again, I called the national headquarters in Maryland. I told them what it was. They said, "Somebody will get out to you," but said, "You'll have to understand you are not the only person that is in this condition."

I told her again. I said, "We live in a mobile home and we have sickness." I had the Red Cross worker—she verified the call. She heard what I said to them, and the Red Cross people then told me, said, "If you want to take this person in your family to a motel and keep them there, we'll pay the bill for it."

They couldn't pay for me to stay with her and she cannot be left along. I told them, I said, "I appreciate it," and most sincerely, I take my hat off to the American Red Cross. They came to this area. They gave us help when our insurance company wouldn't do it.

INSURANCE COMPANY RESPONDED IN LATE JUNE

Senator HUDDLESTON. And how long did it take before your insurance company really responded and to get them to——

Mrs. REFFITT. The latter part of June.

Senator HUDDLESTON. After the flooding in May.

Mrs. REFFITT. We had a man from the National Flood. The local adjusters came up. I don't know what went wrong with them. We didn't hear anything else from them, and then finally we had a man who was from Montana. He was one of the adjusters for National Flood. He came out the latter part of June and we finally got a settlement with them last Friday.

Senator HUDDLESTON. So you had two different adjusters work on your case?

Mrs. REFFITT. But the first two that came were working for National Flood but they weren't from out of State. They were local. They called me last week and told me that my check was at Pikeville if I wanted to pick it up; I could come over there and get it.

So when I went up, and this is what really—it kind of bowled me over, I guess, really, because when I walked in the office, and my son was with me, on the wall was the sign that the gentleman had over here a while ago that they would give you an advancement on your insurance when they told us at Prestonsburg and all they weren't going to do that.

Senator HUDDLESTON. Did you ask them for that?

Mrs. REFFITT. Yes, I did.

Senator HUDDLESTON. Did you ask a second time?

Mrs. REFFITT. Yes, I did, and the second time, when the national adjuster was there, he said, well, he said, "I don't know if you can get it or not," but he said, "Most likely," he said, "you'd be better going through it and waiting for your final settlement."

Senator HUDDLESTON. What is your suggestion for making the system work better?

LOCAL OFFICE RECOMMENDED

Mrs. REFFITT. I say get people from National Flood to put up an office in this area, people that will be here to know the area, to know where to go to if this should ever happen in this country again.

Senator HUDDLESTON. Thank you very much.

Mrs. REFFITT. Thank you, Senator.

Senator HUDDLESTON. I appreciate it.

STATEMENT OF CHARLIE WRIGHT, SUPERINTENDENT OF PUBLIC SCHOOLS

Senator HUDDLESTON. Is Charlie Wright here, the superintendent of public schools?

Mr. WRIGHT. Yes, sir.

Senator HUDDLESTON. Charlie, would you come down and give us some indication of your problem?

Mr. WRIGHT. I want to thank you, Senator Huddleston. I was in contact with your office last Friday four times and the people get impatient with being pestered so many times, but I had good service. I did find out—I represent Pike County schools. I am superintendent of the Pike County schools, and I did locate the whereabouts of my project through Senator Huddleston's office and, also, through Carl D. Perkins' office. I appreciate that very much, and I think we know where we're at with it now.

I have gone through seven floods, I believe, representing Pike County in the sums of from $31,000 to $6 million. I'm not going to reveal at this particular time just what our damages were the last time because I do not know the exact figure. When the projects are in, there may be some red lines go through it.

CONCERN FOR BASEMENT PORTION OF PROGRAM

The first thing, we're concerned with the basement part of this program. We had 19 schools that were affected some way with the flood waters. We had six schools that were affected. Five of those happened to be called basements.

We're talking about the contents in the basement. If you're talking about 23 rooms in a basement, you lose everything in 23 rooms, that's a major loss. If you have $100,000 insurance on contents and you're unable to collect anything for the $100,000 with the exception, I believe, on page 3 in the policy it was, they tell you that you would receive repair of electrical paneling, and the gentleman named oil. We're not supposed to have oil tanks in the basement anyway. That's against the fire regulations, against the law. We just don't do that.

The other thing is the furnace. We could repair furnaces. We were allowed that. We also were allowed freezers, not refrigerators. It doesn't say refrigerators, and we only usually have a couple of freezers, one walk-in freezer, and refrigeration does consist of some other freezers such as milk coolers and a variety of things of that nature.

We have textbooks down in those places. They call them basements and I said, "What do you call a basement?" That far underground [indicating], whatever, a fourth of an inch.

NO REIMBURSEMENT FOR UNDERGROUND LOSSES

Well, really, our schools are about of the bottom story of them is underground. We lose all of our textbooks, all of our seats, all of everything we have in there. Then we receive not anything for those things. It's a real disaster for us.

The statement was made here by the representative. I'm not getting on anybody's toes, I hope. I'm only giving my experience that I've had, what I was told, and I was there at whatever hours it may have been.

We were not reimbursed for anything on the building if it was underground. The doors, the partitions were gone, whatever, the carpet, the tile, whatever. We did not receive anything.

Another thing that I kind of must be misinformed in, I didn't know that they covered debris removal because I don't believe that we've ever received anything in debris removal from flood insurance, but I do believe our debris removal came from HEW, and I'm very thankful for HEW or I think we'd simply been destroyed.

We did close our schools down——

Senator HUDDLESTON. Debris removal, if I understand it, is covered only if it's within the limitations of the policy.

Mr. WRIGHT. Yes, sir.

Senator HUDDLESTON. And I would suspect that, particularly in your situation, you'd never have enough coverage to cover the total loss.

Mr. WRIGHT. That's right, sir. Our debris removal came through HEW, which I say we're very thankful, and HEW did come in and pick up what flood insurance could not cover for us. We also had to agree with HEW, by writing a letter stating that we would purchase insurance to the amount of damage that we had in the last disaster, which is impossible.

The reason it's impossible, the insurance companies are only allowed to write a policy for $200,000 in content, $200,000 on structural damage, and we have exceeded those in content and structural damage on one facility. So I'm not really sure what will happen to us.

I hope, Senator Huddleston, that by the time we have another disaster, which I hope we never but I'm sure we will, that they will not penalize us for not being able to buy the amount of flood insurance that our damage consisted of. We did buy $200,000, as we agreed with those people, and we're gravely concerned about five schools that are called basements, and when you go to talking about contents and you get into a kitchen, that's $150,000 to $175,000 to restore our kitchens. It's a major problem.

FULL INSURANCE NOT AVAILABLE

Senator HUDDLESTON. You've got a situation where Health and Human Services requires you to be fully insured but, on the other hand, full insurance is not available.

Mr. WRIGHT. No, sir, it is not available.

Senator HUDDLESTON. How do you deal with that problem?

Mr. WRIGHT. Well, we haven't had to deal with it so far. We hope something will be worked out and we think it will have to come from the Congressmen, that we will not—say we have, the extent of our damage is $500,000 on a building the next disaster, if it happens, and we're only covered for $400,000. So we would be penalized. We really don't know what we'd do.

Senator HUDDLESTON. But you think one of the major things for you would be a redefinition of the basement coverage?

Mr. WRIGHT. Yes, sir, I believe we're giving someone what we might like to call a Santa Claus. In other words, we pay for $200,000 in content. We pay for $200,000 for building structural damage, and if something happens, we do not receive that coverage, and we must pay that whether we get anything from it or not or we do not receive anything from HEW. We do not meet their regulations. Their regulations are that we must have insurance.

Then if we're paying that for $400,000 that we're not getting anything for with the exception of switch panels and a little furance and a walk-in freezer, well, that's not too much for that kind of money. So we think that something needs to be looked into from that standpoint.

Senator HUDDLESTON. What has your experience been in actual processing of your claims?

LOCAL AGENTS PREFERRED

Mr. WRIGHT. We like local agents because we get faster service. We do not object to people coming in, but it appears that they stay a week and they're in a hurry to leave. They want to go home. Now, we're experienced in floods and we make pictures ourselves and the health department says you remove this debris because of odors and whatever and the epidemics that might start from it. Well, we are smart enough that we have a proof of loss through pictures. We make hundreds of them, and we can justify what we did lose, but we still like local adjusters. They have time. They live in our county. They have time to come and stay, whatever is necessary, to get our projects written and get them to where they belong.

If we have one, for instance, from Mississippi, and he comes in and stays 3 days, he has to go back. Then he comes back four or five times. That delays our claims a considerable length of time.

We missed 15 days of school last year because of the disaster, and we still are not able to—we haven't started our projects at this particular point. The reason, we have not received enough funds to get started, and school is scheduled to start, actually, on August 23, and we have a grave situation. I'm going to be critized severely, I'm sure, if those school buildings are not ready by that time, and unless I have some funds, I'm unable to start any projects.

We have received partial payment of our funds from flood insurance.

Senator HUDDLESTON. That's all you've received at this point, partial payments?

Mr. WRIGHT. Yes, sir, we have not received our full——

Senator HUDDLESTON. About what percentage?

Mr. WRIGHT. Possibly 80 percent of flood disaster. HEW—through your office I was guaranteed in a way that we would have a check cut and it would be in Pikeville within 14 days from last Friday, so I'm sure that will happen, and HEW, they possibly did well by using out-of-State adjusters, but I feel if we had used adjusters that we have that could have been the training program for those people in our own county, that we could have used those and we would have had 100 percent at this particular time.

Senator HUDDLESTON. Thank you very much, Mr. Wright, for your testimony. We'll be glad to add any further statistics you may have to the record.

We need to move on and hear some of these other folks.

Mr. WRIGHT. Thank you, sir, for inviting me.

Senator HUDDLESTON. I appreciate your coming.

STATEMENT OF DANNY DAVIS, PIKEVILLE, KY

Senator HUDDLESTON. Is Danny Davis here of Pikeville? Pineville, I'm sorry. Come on up here if you have something to say.

Do you want to identify yourself for the record?

Mr. DAVIS. I'm Danny Davis from Pineville in Bell County. I'm probably one of the most vocal flood victims in that area. It had to be that way. I'm not normally that way

Let me qualify a little bit. I work with a form of government and I'm not unfamiliar with red tape. On May 7 I had roughly 12 feet of water in my house. May 8 I made a statement for proof of loss through the insurance company. An adjuster came to the house the next day. His exact words were, "I'm touching base with you. I'll be back later."

That was May 9 there. On June 23 my furniture was still in the back yard of the house with the rats and other things. Through Senator Huddleston's office, more directly through his contact person, Sue Lewis, I was given some assistance, the only assistance I've had in the over 2 months that this thing has gone on.

An adjuster did come back.

47-DAY DELAY

Senator HUDDLESTON. What date did he get back? Do you recall?

Mr. DAVIS. June 23.

Senator HUDDLESTON. June 23, approximately a month-and-a-half after the flood.

Mr. DAVIS. Well, 47 days, and he was very cooperative, basically, because I think he referred to his mission as a congressional adjustment claim. I don't want to get a definition of that but I'm sure that that——

Senator HUDDLESTON. I've never heard of that definition before.

Mr. DAVIS. I don't care what his definition is; it worked.

Senator HUDDLESTON. You say he was cooperative at that time? Did he move quickly to provide some help?

Mr. DAVIS. A most expeditious manner. Along about the first week of this month I did receive some compensation from the——

Senator HUDDLESTON. Was that a partial payment?

Mr. DAVIS. Well, it is the way I look at it.

Senator HUDDLESTON. They think it's a total payment.

Mr. DAVIS. Legally, it's closed, I think, but I just can't understand, and I wasn't hesitant to ask questions or make phone calls from May 7 through June 23, and nobody knew what was going on. Nobody knew who was doing what.

Senator HUDDLESTON. Was the adjuster who came back on the 23rd the same one that you had seen on May 9?

Mr. DAVIS. No, the adjuster on the 9th was a local fellow, probably a pretty good fellow. I don't really think he could read the policy.

Senator HUDDLESTON. And the one on the 23rd, was he from out of State?

Mr. DAVIS. He was from Mississippi, right.

Senator HUDDLESTON. And your furniture out in the yard, was that something you did right after the flood waters went down?

Mr. DAVIS. Well, probably 2 days later. The water was in the house. We were without heat, electricity, phone, things like that for 5 days, and I had to clear this junk.

Senator HUDDLESTON. The mess around the house.

Mr. DAVIS. And I assumed that I could go ahead. The gentleman was talking about the pictures, the documentation. I've had pictures since May 9, but everywhere I turned, all the people supposedly in charge said, "Do not remove the furniture; do not take out the insulation; do not bother the floors; our people will have to see this." So you imagine how it smells and how it looks. It stayed there 47 days.

I cleaned it up, like I said, on June 24 or 25, as soon as the guy—he was very cooperative. He said, "Get it out of here," but this is so disruptive, especially during the summer when you want to be a little bit active.

LACK OF COOPERATION

Of course, Senator, I'm sure this is the flood insurance hearing, but the whole FEMA organization, there's no cooperation with these people. They don't seem to know which office does what. Like I said, I'm not unfamiliar with the system that exists.

Senator HUDDLESTON. What suggestions do you have for some immediate improvements?

Mr. DAVIS. I would suggest, of course, one of the things is to establish a base in eastern Kentucky or in a flood-prone area that will provide local people that can speak a local language with us that are not from high points on the Earth that never have floods, that don't understand what's going on down here when we're having to interrupt 2 months of our lives, plus pay a premium for an insurance policy.

By the way, I believe this gentleman over here said that the policy is very low. Well, $60,000 homeowner's coverage of my house, and you're apt to lose your home by fire or some other method much quicker than a flood, I just pay just a short, small amount more than for $25,000 of flood insurance. I don't say the premium is too——

Senator HUDDLESTON. Except that it wasn't available at all, or virtually not at all, so this program was initiated.

Mr. DAVIS. Well, I wasn't aware of the program, even when I bought the house and I was informed later.

Senator HUDDLESTON. Danny, thank you very much for your information.

Mr. DAVIS. Can I ask a question?

Senator HUDDLESTON. Yes, sir.

Mr. DAVIS. Where is the SBA office in Prestonsburg? Actually, I came to see them. I was informed——

Senator HUDDLESTON. There's somebody here from the SBA. Does anybody know where their local office is?

Mr. DAVIS. I applied for a grant through the Family Grant Program and it was turned down this past Friday.

[VOICE]. It's about 3 miles south of Prestonsburg. Do you know where the old Star Music Hall is?

Mr. DAVIS. I had a rough time finding Prestonsburg.

[VOICE]. Head north, almost up to Paintsville. It's about 3 miles this side of Paintsville and it's on the right, the old Star Music Land.

Mr. DAVIS. Again, Senator, let me thank your office publicly for the only assistance I got, and it was a major part of correcting this problem.

Senator HUDDLESTON. Thank you very much.

STATEMENT OF J. B. ROTTMAN, LOUISVILLE, KY

Senator HUDDLESTON. Is Mr. J. B. Rottman of Louisville here?

Mr. ROTTMAN. Yes.

Senator HUDDLESTON. We've asked Mr. Rottman to come because of his extensive experience in insurance to give us the benefit of his thinking.

Mr. ROTTMAN. Thank you, sir.

Senator HUDDLESTON. Do you want to identify yourself for the record?

Mr. ROTTMAN. Yes. For 25 years I was an independent adjuster in Louisville, KY, handling all types of losses. For 10 years I was with the property claim services of the American Insurance Association. This was the arm of the association that handles all types of claims, and was instrumental in, oh, formalizing some of the present flood claim forms.

My function was to move into a disaster area immediately. assess the number of claims, wind, tornado, hail, whatever, as well as flood, assess the dollars that the companies would need, how many people they would need to get into an area.

I've listened to quite a bit of this testimony.

Senator HUDDLESTON. Would you say eastern Kentucky is a place that has peculiar problems, or particular problems, that require somebody to be somewhat familiar with in order to do a very quick and adequate job?

Mr. ROTTMAN. No; there are independent adjusting firms in the larger cities and in many of the smaller cities. They have branches in many of the smaller cities. They are all reasonably familiar with not only the flood, with other types of insurance and, of course, this would fall within the scope of what they're supposed to do.

LENGTH OF CLAIM PROCESSING TIME

Senator HUDDLESTON. How long do you think an adjuster should take to process a claim? How long should a claimant have to wait?

Mr. ROTTMAN. A qualified adjuster or perhaps a certified adjuster, that's the same thing with a lot of people, should be able to settle, oh, I'd say three to four claims a day. Flood claims, reasonably, are much higher in value than normal hail claims or fire claims because as——

Senator HUDDLESTON. As pointed out by Mr. Collins' statistics.

Mr. ROTTMAN. Yes; I think he said $11,000. I don't doubt that in the least. Three or four claims a day, you've got to understand, there's a lot of paperwork involved in this, much more paperwork than there with the property insurance covering the other disaster areas.

Senator HUDDLESTON. Why is that the case? Why would you have more in flood, for example, than you would in a fire? You've got the contents that are damaged. You've got a structure that's damaged. You've got to show what's damaged and what's not.

Mr. ROTTMAN. It seems to me that they demand too much.

Senator HUDDLESTON. Who demands too much?

Mr. ROTTMAN. The flood people.

Senator HUDDLESTON. You think that we might revise the entire procedure, the criteria.

Mr. ROTTMAN. Oh, the procedure of handling the claims should be just about the same.

Senator HUDDLESTON. But the criteria, whatever is necessary to demonstrate a loss, there's something in there that—what makes the difference?

EXCESSIVE PAPERWORK

Mr. ROTTMAN. I have copies. I've been retired for 5 years now and, of course, I've kind of lost contact. They may have changed, but I have copies of the flood forms. The require a lot of information, the height of the water and how far it is from certain areas, where it came from, so on and so forth, that are not necessary. Maybe they're necessary with the flood insofar as the engineering of it and so forth. They don't have any actuarial problems because they don't use it. In an emergency program, it just insures anybody, period.

Senator HUDDLESTON. Well, you think that's an area that ought to be looked into to see whether or not there is more stringent requirements than necessary?

Mr. ROTTMAN. Yes, the paperwork required.

Senator HUDDLESTON. If a chair is damaged, it's soaked and flooded, the wood is warped and all that just as if there's char on it from having been burned. It looks like it ought to be very easy.

Mr. ROTTMAN. One of the big problems with most adjusters is paperwork.

Senator HUDDLESTON. I think that's a big problem everywhere.

Mr. ROTTMAN. The least amount of paperwork they can do, the faster they'll do it.

Senator HUDDLESTON. I think that just emphasizes the need to change the forms and eliminate, where possible, any paperwork or any requirement that's imposed on the homeowner. You know, you've got to take into account that he's in a difficult position. Nearly everything he's got has been damaged—his furniture, his papers, his records, his home itself, electricity is out. It's almost too much to expect that he can come forward very quickly with a lot of detailed information.

Mr. ROTTMAN. There's several of the people have said that. They have approached us and I see no reason why they shouldn't be upset about it.

WRITE-YOUR-OWN PROGRAM

Senator HUDDLESTON. I think that's something we'll explore to the fullest extent. You're familiar with the Write-Your-Own Program?

Mr. ROTTMAN. Very briefly, and what I know about it may not be accurate. As I understand it, it's a program where the insurance companies—the Hartford, the Aetna, Travelers, and so on—can write the flood insurance and have it underwritten by the Federal people, and they will have their own claim adjusters.

Senator HUDDLESTON. And process their own.

Mr. ROTTMAN. Handle their claims and process their claims. That will be the local people in the area.

Senator HUDDLESTON. We want to explore that further. Do you have any other suggestions on what might be done to improve the program?

Mr. ROTTMAN. EDS who was prior to this present computer company that is operating it had put out a series of a procedure for handling claims, and I still have a copy of that and it sets out what is normally handled, how it should be handled. If that's adhered to, there's no reason why that shouldn't work.

Senator HUDDLESTON. Do you want to submit that for the record so that we can compare it with what has been indicated here. You don't have to do it now. If you have it in a form that can——

Mr. ROTTMAN. Yes, it's in a form.

Senator HUDDLESTON. All right, fine. You can submit that for the record.

Mr. ROTTMAN. I have only one more suggestion.

Senator HUDDLESTON. All right, sir.

Mr. ROTTMAN. Better supervision.

Senator HUDDLESTON. From what level now?

Mr. ROTTMAN. From the top down to the adjuster.

Senator HUDDLESTON. Have more idea what the adjusters are doing and saying?

ACTIVITIES OF "STORM TROOPERS"

Mr. ROTTMAN. What they're doing, to see that they're doing it properly, to see that they are not just out there doing things they shouldn't be doing, that they shouldn't be just wasting their time doing it. The average what are called storm troopers who are adjusters who follow disasters, they're not interested in, really, in wasting time in an area like this because there's nothing for them to do. In the various disaster areas I have not found either a great number of the storm troopers who were so anxious to leave after a couple of days and then come back a couple of days later. They wanted to get the work over with and leave permanently.

Senator HUDDLESTON. Well, I think that's certainly a natural tendency with people who are away from home.

Thank you very much, sir, for appearing before us. We appreciate that.

Mr. ROTTMAN. You're welcome.

[The information follows:]

MINIMUM STANDARDS APPLICABLE TO FLOOD LOSSES

I *Prompt contact.*—When inspection of the damaged property, with knowledge of the insured, cannot be made within 24 hours of assignment, the adjuster will call the insured within this 24 hours, make an appointment with the insured, or tell insured when he can expect his loss to be seen. If personal contact or telephone contact is impossible, a suitable letter will be mailed within 24 hours of assignment. At first contact, the adjuster must advise the insured of his name and telephone number.

II *Returning phone calls.*—Any phone call from an insured or his agent or another adjuster must be returned within the day in which it was received.

III *Inspection of losses.*—All losses will be personally inspected by the adjuster assigned to the file. No exceptions.

IV *Progress notes.*—The adjuster's file must contain dates of assignment, contacts, inspections, telephone calls, and must contain notes as to the current status of the adjustment at all times, and will be open for inspection by NFIP Q.C. person at any time.

V *Replacement cost and ACV.*—The file will contain an accurate diagram, with measurements, of the insured building and the method of determining replacement cost and ACV of the insured building.

VI *Estimate of building damage.*—The adjuster is expected to prepare his own estimate based on local price guidelines approved by the NFIP FICO supervisor. With the advanced approval of the NFIP FICO supervisor, contractors' estimates may be used as a basis of adjustment on large losses and when estimating the losses is beyond the ability of the adjuster. Before this approval will be given, a detailed scope of damage prepared by the adjuster must be submitted to the NFIP FICO supervisor. When a contractor is used, the adjuster must maintain total control of the loss. Copies of repair estimate will be left with insured.

VII *Estimate of contents loss.*—The adjuster will assist the insured in preparing the contents inventory and establishing replacement cost and ACV. Copies will be left with the insured.

VIII *Depreciation.*—Depreciation or betterment will be realistically handled taking into consideration the actual age and the useful life of the property in question. Depreciation figures will not be stated as a lump sum on either the building repair estimate or the contents estimate, but will be explained in the statement of loss and the adjuster's report. Adjusters will explain depreciation carefully to the insured.

IX *Photograph.*—Photos will be taken as necessary to adequately indicate damages. Will pay $2 per photo.

X *Closing papers.*—Adjusters must submit closing papers to NFIP FICO within 72 hours of receipt of proof of loss. Adjusters who are dilatory in submitting closing papers will not be assigned new losses and losses not concluded may be reassigned.

XI *Estimate of loss.*—The adjuster must promptly notify in writing the NFIP FICO supervisor of any loss where the anticipation payment will exceed $24,999.99.

XII *Status reporting.*—Preliminary report must be turned in within 10 days of assignment. In any instance where closing is delayed beyond 40 days of assignment, the adjuster will submit an interim report indicating date of assignment, date loss was inspected, and the recommended reserve. A forecast of closing will also be offered.

XIII *Salvage.*—When total loss is paid on any item with a reasonable salvage value, the item or items will be turned over to a qualified salvor. When handling large commercial losses, a qualified salvor will be used when feasible. If there is no salvage, details must be submitted to establish this fact.

XIV *Proof of loss.*—Proof of loss must be secured on each loss. Proof of loss will be completed before insured signs. Proof of loss is also needed on each partial payment.

XV *Advance payment.*—Adjuster shall discuss the advance payment procedure with the insured at the time of his initial contact. If the insured requests an advance, the adjuster should so advise the company. The adjuster shall request the advance payment in writing, including in the writing the date of inspection, estimated total payment, scope of damage, and amount of the requested advance. The advance should not exceed 50 percent of the final paid claim. Also, try to make the advance on the contents.

National Flood Insurers Association—Narrative Report Captions

I *Enclosures.*—Specify documents enclosed.

II *Insurance.*—Describe NFIA coverages reported to you with amounts of insurance applicable, deductible amounts and policy term. Describe and list any other insurance covering the property, describe coverages of other insurance such as: Fire and E.C. homeowners, all risks, etc. Give date and source of assignment.

III *Insured.*—Give pertinent descriptive information on insured such as age, marital status, occupation, previouis flood claims.

IV *Risk.*—Describe building and contents; give complete description of construction, age and condition. Give name and distance from the body of water causing flooding. Pay particular attention to new construction or additions to existing structure completed after the area was approved for flood insurance.

V *Origin.*—Describe nature of flooding, giving maximum depths attained by flood waters. Was there a general and temporary condition of flooding in the area? Dates and hour flooding began and when water receded. You must indicate the height of the water, to the nearest foot, above or below the first flood level of the risk involved. Comment on damage caused by other than flooding such as: By windstorm, fire, explosion, etc.

VI *Adjustment.*—Describe extent of damage caused by flooding and extent of damage caused by other than flooding. Give amounts of your detailed estimate and amount of any estimate presented by insured. Give amount of offer and date of offer made to insured. If offer was rejected, why? Describe negotiations leading to settlement, if settlement amount is in excess of your offer. Be sure to include a comprehensive description of any prior flood damage. Replace cost (if applicable). Comment on how values were determined. Was the basis for payment affected by the replacement cost clause?

VII *Salvage/subrogation (if applicable).*—Comment on method used to determine value of salvage. Indicate amount of gross and net proceeds. Advise possibility of subrogation and your recommendations for recovery.

VIII *Title and encumbrances.*—List all mortgages and current status on building as well as outstanding liens or loss payable provisions applicable to contents. If mortgage payments are in arrears check for possible foreclosure proceedings and comment in your report.

NOTE: Narrative report is mandatory on all losses over $25,000 and on losses of unusual circumstances.

STATEMENTS OF:

JOHN REED, EXECUTIVE DIRECTOR, FLOOD CONTROL ADVISORY COMMISSION, FRANKFORT, KY

MIKE HALE, VOLUNTEERS FOR FLOOD CONTROL, HARLAN, KY

Senator HUDDLESTON. Is John Reed here?

John, you have a job with the Flood Control Advisory Commission.

And Mike Hale, is he here, from Harlan, KY, with Volunteers for Flood Control.

You gentlemen give us the benefit of your thinking and then we'll move on to the rest of the claimants that we have. Go ahead.

Mr. REED. I want to look at this in a little bit different perspective. I work for an advisory commission as a part of State government, and in talking about particular claims, one of the biggest things seems to be no one really understands what the chain of command is. You know, who does what to whom.

I've received, I don't know, countless phone calls trying to get their claims reviewed and, "How do I get an adjuster?" I've had many calls from insurance agents, you know, "Who are the adjusters that we can use?" I, in turn, try to find out.

COMMUNICATION PROBLEM

I spent 2 days with probably six different people in Maryland and Prestonsburg or Paintsville—excuse me, Pikeville—trying to find out just a list of certified adjusters that agents could contact. So there is just a tremendous communication problem. There is a problem with adjusters and some adjusters allow a lot under the regulations. Some don't allow anything.

I think to be a certified adjuster there ought to be a push to get more adjusters in the local area who are familiar with the area and are readily accessible instead of waiting for 2 weeks for somebody from Montana or Mississippi coming in that is not familiar with the area, who would have a problem, you know, driving around the area.

There is a tremendous problem with insurance agents. There is one insurance company in Frankfort, KY, that probably has 70 percent of the, I guess, policies that's out of Frankfort. They're going to get out of the insurance business, I guess, because of this, because they can't get any satisfaction with it.

There are so many changes. The rates go up; the deductibles go up; you allow for this; you don't allow for that; and even agents; and agents don't make money off of flood insurance. This is a service that they provide as far as trying to get other insurance.

They're not kept up to date even though they have seminars and you might have a half-dozen agents show up. It's not publicized enough. You're not getting out and working with the agent or contacting the individual agents.

The write-your-own insurance sounds like a good idea, dealing with local people, local adjusters, and it would still be subsidized by the Federal Government, but it might be 8 to 10 years down the road before that really gets going and takes the bulk of the flood insurance.

One of the comments, and this is tentative, of the Business Administration is to try to make the flood insurance program pay for itself because you're increasing rates, you're increasing the deductibles. You have people on fixed incomes that, as the rates go up, they can't afford to pay for flood insurance and they, in many cases, are the ones that need it the most, and especially people that are retired. Something out to be worked out in a subsidy. People below certain income that are in flood areas that they—so they can be covered, at least with basic representative flood insurance, and I don't think that the Federal Government ought to be in a position where they won't make the program pay for itself when you're cutting out a certain group of people that probably need the service more than anybody.

Another thing that I think ought to be looked at as far as flood insurance is concerned is, when you get your money from the flood insurance, you can go back to where your place, back to whatever it was before, especially when you're looking at the structure itself.

If there can be an additional fee or subsidy tax on an addition to the insurance claim that would allow the occupant of the dwelling to flood proof his own house at a reasonable cost that would alleviate future flood damages as far as the next flood is concerned, in the long run you're going to have reduced cost, and I think that ought to be looked into with instead of repairing back to what it was before, it would be floodproof or even make a relocation. To relocate someone you're moving them out to where they're not going to be affected. You're not going to have those payments.

That's about all I have to say.

Senator HUDDLESTON. Mike, do you have something to add?

Mr. HALE. Yes. I want to thank you for the opportunity to be here. Even though the National Flood Insurance Program is the only game in town for many small, mountainous, rural communities, we have a long way to go before fulfilling its potential.

Current attempts to make the program self-supportive are misguided. Continuing premium increases and increasing of deductibles and reducing coverage are but a few of the many problems that need to be addressed.

Since today's hearing is really concerned with ways to streamline the administrative process and improve claim services, I would like to make a few interim suggestions.

The basic problem is one of education, of local government, insurers, financial institutions, and, ultimately, the flood claim residents are not concerned with flood insurance until the flood occurs.

To take advantage of that attention by the community, they must just as soon after the disaster as possible send in a public information team. Radio and TV talk shows as well as newspaper articles could be utilized, stressing positive preventative actions that the residents could take today that could prevent another disastrous flood.

They would then enlist the aid of already existing community groups such as extension agents, conservation districts, service and professional groups responsible for people, to train volunteers to visit flood victims on a one-to-one basis at their homes and talk about what they can do to help themselves, whether it's filling out IRS forms, insurance claims, or flood-proofing your home when they rebuild.

NEED FOR TRAINING PROGRAM

However, to perform the type of training necessary to use these volunteer programs, volunteer groups, the Government needs to develop a training program. It would be vitally important that FEMA and the other Federal and State agencies involved accept local groups and representing groups as equal and valid partners in solving the problems.

In fact, a major key to all of the problems facing the NFIP is local involvement in the decisionmaking process. FEMA has a continuing education conference each fall that keeps States informed as to current issues and policies affecting the flood insurance program. This is an effective way to keep the State involved and up to date, but that is where the information flow usually stops.

Perhaps the State and FEMA should coordinate a similar workshop for those involved on the local level such as insurers, realtors, the financial institutions, and local government, and also an agent certification program with a minimum of continuing education credits would encourage participation in such workshops.

If a workshop on just flood insurance doesn't seem like a likely drawing card, work with the professional State, regional, and National associations to make a presentation at their annual meetings or in their newsletter or bulletin. Also, have monthly update columns in various trade journals.

To reach the consumer flood plain residents, make use of club newsletters, such as the ones printed by the Jaycees, to bring in the community response so necessary for the NFIP.

Or perhaps an even better way to involve local groups in the process is to establish working advisory groups comprised of a broad cross-section of individuals from local government, related professional groups, and flood plain residents or consumers to work with State, regional, and Federal agencies to improve delivery of the Flood Insurance Program. After all, it's the local folks who are being flooded, both by water and by redtape.

A national advisory group to work with FEMA should consider not only the processing of claims but should also address the broader range of issues that have caused the program to lose credibility and effectiveness in addressing flood damages.

Groups such as the Association for State Flood Claim Managers, the American Society of Appraisers of USA, to name a few, are all trying to work informally with FEMA, but it is an informal structure with no team effort. There needs to be a formal, structured avenue of approach with the assurance of being heard in the right places by the right people.

This advisory group should also address such issues as increased premium, possible rating considerations for community and individual flood-fighting efforts, increased coverage of possible matters or waivers to include or exclude certain items, consistent and equitable definition policies, continue the State Assistance Program funding, mapping inadequacies, and more.

The present Flood Insurance Program is seen as ineffective and inconsistent and too expensive for those who need it most. The National Flood Insurance Program has the effect of saying to the low-income people that they have nothing of value worth protecting from floods.

Since our Government is founded on the premise that a government for the people and by the people is best, and those who are most affected should be involved in how their governed.

Senator HUDDLESTON. Gentlemen, thank you very much for your suggestions which certainly will be considered by the committee, and I feel sure by Mr. Collins and his colleagues. Thank you.

STATEMENT OF BARBARA DANIEL, PAINTSVILLE, KY

Senator HUDDLESTON. Barbara Daniel from Paintsville.

Ms. DANIEL. Senator, I, too, would like to thank you and your staff, especially Sue, for her help. She's just been invaluable.

DISPOSING OF FLOOD DEBRIS

My statement in reference to the manner in which the National Flood Insurance has dealt with me on my insurance claim, after receiving the notice of loss form from our agent, Larry Stevens, Allstate Insurance, I had a question about disposing of flood debris and placed a call to the 800 number.

The woman who answered spoke such poor English I could hardly understand her. At no time during our conversation did she ever make a complete sentence, and it was also necessary for me to place several calls to the Pikeville office. This would take hours, sometimes even days, and after they answered I would have to wait from 7 to 15 minutes before anyone would ever come on the line to talk with me.

Our notice of loss form was delivered to the National Flood Insurance office at the Best Western Motel in Pikeville. An adjuster, Mr. Sam Williamson of the Williamson Adjustment Service in Kanasas, visited us as a representative of National Flood Insurance.

We discussed our losses with him and reached a verbal agreement. He returned on June 9, 1984. At this time I agreed to what I thought was a final settlement and signed the proof of loss form..

After Mr. Williamson left I realized there were some items that had not been included, but because I thought this was the final adjustment, I did not contact him. On June 13, 1984, I received a call from one of the rudest people I've ever talked with, who was Mr. Lorne Faryna of the National Flood Insurance.

He told me the adjuster hired by his company, National Flood Insurance, and assigned our claim was incompetent and none of his work could be accepted by National Flood Insurance. This was not true because at the same time I worked on our claim, I also worked on the claim of my parents. They received their check without one question being asked, and their check was sent to me on—I've lost my place here——

OK, Mr. Faryna told me, first of all, the contents of the storage building were not covered. This was a point already discussed and agreed to by Mr. Williamson. Mr. Faryna said we would need a separate policy to cover the storage building, and I read him the part of the policy covering this. He said he would have to check this matter out and call back.

He called a short time later to say the items in the building were covered but another $500 deductible would apply. He informed me National Flood Insurance operated under three different policies.

My insurance agent had told me that all flood insurance was the same and there was only one policy. The only reason I think Mr. Faryna might be right about this is that Mr. Williamson also told me he was working under three policies. Mr. Faryna claims the one written in 1979 is the best policy.

Several times during my conversation with him he laughed at me. I told him this was not a laughing matter. He continued to laugh and harass me over the claim. I asked if he was the official company harasser. Realizing nothing could be accomplished by talking to a person like him, I asked the name and phone number of the company president. He laughed again and said he didn't know.

I then requested this information, along with his supervisor's name. He asked someone in the room the name of the president. He told me Bill Kennedy was the president and was in the Pikeville office at that time and Sue Woods was his supervisor. I requested to talk with Mr. Kennedy and was told he was not available.

I received a third call from Mr. Faryna and he started to harass me again. I told him I was aware of the way the Computer Science Corp. was treating the National Flood Insurance policyholders and that I had called my insurance agent between his calls and as soon as I hung up I would call Congressman Perkins and Senator Huddleston to ask for their help with my claim.

I was finally forced to hang up the phone during our conversation because he continued to harass me. A few days later I received a call from Ms. Suzanne Woods. She told me an additional $500 deductible did apply to the claim, and no more furniture than we moved, she would not pay our moving expenses as requested.

I tried to tell her just how much furniture and accessories we had moved. She would not let me finish and said, "I repeat, no more furniture than you moved, I cannot allow this expense." She gave me a chance to say nothing and only wanted to know if I would agree to her adjustment. She told me Mr. Williamson had made several mistakes on his claims.

I told her I would not accept her adjustment since I felt I had already settled with the adjuster. She told me she would send a letter stating her offer and we could agree or not agree. She was very abrasive during the conversation.

After the call from Mr. Faryna I called Congressman Perkins and Senator Huddleston's offices to request their help with this claim. Both have been very helpful. I talked with Sue Lewis in Senator Huddleston's office. She told me Bill Kennedy was a very good person and very concerned over these claims and the way people were being treated. She also told me he was working hard to correct the situation.

I think we were entitled to moving expenses of $916, plus the usual fee for a truck. We put the furniture on the truck in the early morning hours of May 8 and unloaded it in the early morning hours of May 10. We were very careful with our recordkeeping of hours worked and hours the truck was used.

When I sat down to write this letter to Mr. Kennedy, I decided to call and check his title since Mr. Faryna did not seem to know what he was talking about. Sure enough, he had misinformed me one more time. When I called the 800 number, Ms. Cynthia Putman answered. She was very nice and helpful. I really appreciated this that she and Mr. Williamson were the only friendly people I had dealt with from National Flood Insurance to this point and, in all, I had talked to 15 or 20 people.

The letter I wrote was to Mr. Kennedy instead of Ms. Woods. Since she would not listen to me on the phone, I felt sure she probably would just have thrown my letter in the trash.

On June 29 I received a call from Mr. Bill Kennedy. His correct title is manager of claims department, National Flood Insurance. He was a super nice person and very concerned about the problems I had encountered on my claim.

He said he was horrified to learn of the manner in which the people from his company had dealt with me. He told me Mr. Jim Reed would call that day to settle my claim. The call came from Mr. Bob O'Brien and the claim was settled for the original amount, as agreed to by the adjuster on the original proof of loss form.

On Monday, July 9, Mr. Jim Reed delivered the check to me in Paintsville, and he again expressed his company's concern and desire to improve the problems that we have encountered with our flood insurance claims.

REPAIR AND REPLACEMENT NEEDS TO BE CLARIFIED

There are two things that I think—I think maybe we need a clear identification of repair and replacement. My big concern, water, like 1½ inch, has been getting in my house, covering our pool, our outside storage building, and our heating system, which was our main concern.

We had asked that the heating system be replaced with an outside unit out of the basement so we would not encounter this loss again and the cost of that would be $3,400.25. Instead, we agreed to settle at $1,036.45 for cleaning and repairing our heating system and for cleaning our ductwork and putting new insulation on that.

Now, I think we need maybe a clearer definition of what needs to be replaced and what needs to be repaired, because by replacing the furnace, this is an item that we would not have to file another loss on at any time, and living in the area we do, just repairing the furnace in the basement, we will have another loss on it probably.

Do all policies have to be the same? Could a person purchase a policy to cover their items like maybe a finished basement or a pool or special additions to their house?

That's all I have.

Senator HUDDLESTON. Thank you very much. I think you've brought out some interesting information, and I hope Mr. Collins has attempted to address some of those problems that you have encountered. I think your suggestion about the flexibility of policies may be very helpful to us. Thank you very much.

Ms. DANIEL. Thank you.

Senator HUDDLESTON. Is Juanita Thacker here from Pikeville? Ms. Thacker did not make it.

Mrs. Edna Martin and Polly Martin from Garrett, are they here?

STATEMENT OF RITA DAVIS, DWALE, KY

Senator HUDDLESTON. Jerry and Rita Davis from Dwale?

Mrs. DAVIS. I'm Rita Davis from Dwale, KY. My husband is Jerry. I'm here.

Senator HUDDLESTON. All right.

Mrs. DAVIS. On May 7 I had over 6 feet of water in my home.

Senator HUDDLESTON. Six feet of water?

Mrs. DAVIS. Yes.

Senator HUDDLESTON. And you had insurance coverage?

Mrs. DAVIS. Yes, I do.

Senator HUDDLESTON. What has been your experience?

Mrs. DAVIS. Well, after 2 months, almost 2, lacked 1 week being 2 months, I received my flood insurance check, but the only way I got that was through your office.

My policy was lost four times. I would spend 6 to 8 hours a day on the phone; nothing accomplished except a lot of rude words.

Senator HUDDLESTON. Where was the policy lost?

LOSS OF PROOF OF LOSS

Mrs. DAVIS. In the Pikeville office. On June 24 I was told that they would have to send all the way to Texas for a duplicate of my proof of loss. I have pictures of my home and——

Senator HUDDLESTON. Did they lose your application?

Mrs. DAVIS. No; they lost my proof of loss.

Senator HUDDLESTON. Proof of loss, all right.

Mrs. DAVIS. I had two really nice adjusters at my home within 2 weeks after the flood. I could get no calls in at Pikeville. When I did, at 7:30 one morning, I was told that I called too early and they could not help me.

Senator HUDDLESTON. Did you have two different adjusters?

Mrs. DAVIS. Yes; I have a rented house and I have my own home.

Senator HUDDLESTON. I see. Were they local or out of State?

Mrs. DAVIS. They were right beside each other, and we have worked, we have done the rent house. We've got that back. The people are living in it. Our home was destroyed. We have no floors, no walls. We're doing the work ourselves because we cannot get our flood insurance check cashed.

Senator HUDDLESTON. Can't get it cashed? You have a check that you can't get cashed?

Mrs. DAVIS. SBA is on the check. I do not owe SBA the full amount of the check. I have an agreement for 20 years with this company. I have a deferral on my house payment which they do know that I am going to put the house back and will be paying it back, but I can get no help. They want to go a bank and start a trust account and not be able to write one check. Every time I have to go to the lumber company I have to take this little piece of paper to the bank, which is only in on 5 days a week.

My husband and I, are country people, and for the last 3 years we've been considered low-income because my husband has had a broken neck.

I've had all I can take from flood insurance and I'm almost ready for a nervous breakdown. I want help today.

Senator HUDDLESTON. Do you think you have some additional money coming from the Flood Insurance Program?

Mrs. DAVIS. Yes, I do.

Senator HUDDLESTON. Have you agreed to a settlement?

Mrs. DAVIS. No; I received a check and I am not ashamed to say that it was for $24,000.

Senator HUDDLESTON. Was that a partial or was that a full payment?

PARTIAL PAYMENT RECEIVED

Mrs. DAVIS. That is partial, and this does not cover all of my home. I only have $30,000 of insurance, so in order to put my home back, I will have to do the work myself.

Senator HUDDLESTON. Well, I think you've got some problems here that are pretty technical nature that our people will have to look at very closely. I'm sure Mr. Collins' people will and the SBA, too. So you make sure Ms. Lewis here has the total details and we'll see if there's any way that we can help.

Mrs. DAVIS. I know I spent 3 weeks trying to call National Flood, and the only help that I could get was through temporary housing after I contacted your office.

Senator HUDDLESTON. Well, you shouldn't have to spend 3 weeks calling.

Mrs. DAVIS. No, we shouldn't.

Senator HUDDLESTON. So we'll certainly look into that.

Mrs. DAVIS. And temporary housing also told me that if I would accept what was supposed to be this partial payment of $2,000 to get my house started back, that I would receive my total insurance check a little bit faster.

Senator HUDDLESTON. If you would accept that as total payment rather than partial payment of this claim?

Mrs. DAVIS. Partial payment, but if I did not, it would take me 6 to 8 months to receive the full amount of the check of what I needed.

Senator HUDDLESTON. Well, that doesn't compute with other information, but we will certainly check that out.

Mrs. DAVIS. And I do have a suggestion as to what can be done for the next time this happens.

Senator HUDDLESTON. All right.

Mrs. DAVIS. I think that you ought to take a look at the local health department, the way they do certain things. I had more success in getting my dog a rabies shot than what I did with this flood insurance.

Take a mobile home, take SBA, take flood adjusters, everything you need into each community on certain days and advertise it and you'll get more response and probably less expense because I had eight different people in temporary housing call me and starting my file over, not just for the same thing, but thinking I had never been helped, I'd never started this. My community is small. It would take 1 day to do that.

Senator HUDDLESTON. Just let the right hand know what the left hand is doing so people will understand.

Mrs. DAVIS. Have people line up and file for it and take them through.

Another thing, when they talked to me about my flood insurance number and where they could contact me at, I would say, "Box 1, Dwale, KY." "Well, ma'am, how can you get this, your mail at this address, if you have been flooded?" I said, "I take a key to the local post office and open my box. I don't have it on my door and I don't have it in front of my house," and that was their main concern.

Senator HUDDLESTON. Thank you very much for your experiences there.

STATEMENT OF NANCY SUE DINGUS, MARTIN, KY

Senator HUDDLESTON. Is Nancy Sue Dingus here?

Ms. DINGUS. I'm Nancy Sue Dingus from Martin, KY, and my problem is a little different.

Our policy was originally written on April 29, 1977. It had been renewed every year, and on March 26, 1984, I went into my insurance company and asked that we make some changes. I needed to make a few basic changes in the policy.

The policy was changed and the insurance company mailed the policy to the National Flood Insurance Bureau on March 27, 1984, with our check. The insurance company sent the renewal form along with all the necessary papers. Now, they had all of the descriptions of the property, where the property was located, and all of this on the original policy.

POLICY NOT FORTHCOMING

The National Flood Insurance Program received the check and it passed through their bank April 2, 1984, because that date is on the back of our cancelled check. A few days before the policy was to expire I asked the insurance agency to see if they knew what had happened because we had not received a policy.

They again sent the renewal form, a copy of the renewal form they had made. They took a copy of our cancelled check, front and back, and mailed it to the National Insurance agency. We still did not get a check. They repeatedly answered the questions the insurance agency in Maryland sent back and asked, and I think the questions were dealing with where was the location, zone 17, I believe, was one of the questions they asked which was on our old policy numbers, and which they had put on the renewal policy. There were a few small technical questions which they continued to send back and ask our insurance agent.

The insurance agency attempted to help me get a policy. I contacted the Maryland office three different times after the flood. I explained that we had been flooded, that we had the policy check that had been gone through the bank. Well, they assured us that we had insurance because they had the check, but we had no policy.

Well, the Pikeville office, because our insurance company turned in the notice of loss and they had put that the policy had been applied for, even gave them a copy of where they had made that renewal application, they sent an adjuster out.

By May 20 we had signed with the adjuster that everything was all right. As of June 22 we had not received a policy, and the insurance company at Pikeville needed that policy before they could process the claim.

Through help, I had to ask your office and I went to Congressman Perkins, too, to see if they could help us to find out why we could not get a policy so that the claim could be processed. I went to the post office today and had a check.

Senator HUDDLESTON. Today?

Ms. DINGUS. Today, this morning.

Senator HUDDLESTON. There's nothing like a good ending to a story. I wish you had started with that.

Ms. DINGUS. Well, I thought maybe you needed a laugh. Really, my reason for wanting to say this is that I think that possibly there needs to be something made so that since our policy was not up for over a month by the time I started trying to make the renewal, that maybe something could be done because if you have to have a copy or the insurance company has to have the copy of it before that, they can go on and completely process the claim. Maybe at some time or other it can save some other people problems. And I thank you all.

Senator HUDDLESTON. Maybe make sure you don't try to change the policy during the flood season.

Ms. DINGUS. I don't think I'll ever change my policy again for anything.

Senator HUDDLESTON. That's an interesting story. I'm glad it had a good ending, even though it took so long getting here.

Ms. DINGUS. Well, I am, too.

Senator HUDDLESTON. I think this again points out the procedures that need to be reviewed and studied and, of course, I know there are situations that fall through the cracks from time to time, but we'll certainly look into all those procedures and see if we can't improve them.

Ms. DINGUS. OK, thank you.

Senator HUDDLESTON. Thank you.

STATEMENT OF MARGARETTE FANNIN, PRESTONSBURG, KY

Senator HUDDLESTON. Margarette Fannin from Prestonsburg?

Ms. Fannin, would you please have a seat. I appreciate your coming this morning and staying so long with us.

Ms. FANNIN. I had applied for flood insurance. The flood was on the 7th and I applied around the 10th.

Senator HUDDLESTON. Would you speak right into that microphone so that everybody can hear you?

Ms. FANNIN. I applied around the 10th. I called my insurance company over at Hazard. I called them and they said they would notify the National Insurance Co. So the next 2 days I worked at the Prestonsburg Grade School, helped with the cafeteria so the people could have food. Then the next 2 days they asked me if I would go to Allen Central with the Red Cross and fill out vouchers for the people that were des-

perately in need, so I felt sure that my insurance company had notified the National Insurance and everything was taken care of.

Sure enough, in about, oh, I'd say—I was patient because there were others in worse shape than me. It was our basement that was damaged and our back patio, so as I helped the others, I waited patiently for the adjuster to come, and he did, I would say, within 3 weeks, and he was from New York. His name was Kevin Burns. No, from Miami, and I don't have the name of the other man but he was from New York, with him.

I would say they stayed at our house within the minutes of 10 to look over the terrain of our hill and the back of the house, also, the basement. He then told me that nothing was included in the basement, and he said he doubted if I would collect anything at all from anything else.

So anyway, I went ahead and got my estimates of what could be done. He told me I needed to get an engineer's report. I also got Earl Martin from Prestonsburg, one of the best engineers to my ability in town. He checked and he said that definitely our insurance policy covered what had happened to the back of our house.

As of today, I haven't heard a word from the insurance company. Mr. Kevin Burns, I called him several times at his Pikeville motel number he gave me, and he stayed at the Modern Villa Motel, also called the offices in Pikeville which, of course, was a mixup of the line. I knew that because I had worked at Allen Central and the staff there did have a time there getting connections made.

In the meantime, he said I could get connected with him or get in contact with him at his motel. I did talk to him three times.

Senator HUDDLESTON. And you still have not received any check or anything?

Ms. FANNIN. I got the form on the 10th, the 7th, and the 10th of this month, to fill out to get help.

Senator HUDDLESTON. So within the last few days you have filled out the actual——

Ms. FANNIN. I haven't got it filled out yet.

Senator HUDDLESTON. Oh, I see. You haven't sent it back in.

Ms. FANNIN. I just got it the 7th and the 10th.

Senator HUDDLESTON. OK, as you heard, Mr. Collins has some people here who are going to take a look at these problem cases, and I'm sure they'll be glad to look at yours and see if it can be expedited in any way.

Ms. FANNIN. OK, thank you.

Senator HUDDLESTON. Thank you.

Judge Nim Henson and Judge Sid Williams?

Ladies and gentlemen, that concludes the witnesses that are here. I want to thank all of you again, particularly thank the departments and the agencies that have sent people here from a far distance.

This is an area, as you know, that has concerned all of us. It's not peculiar, of course, to the insurance program. I want to assure Mr. Collins of that because we've had flooding disasters in this area before in recent years where we've had difficulties with housing problems. We've had difficulty with the disaster programs of every kind, and I think that's partly because of the nature of the problem to start with. Floods come suddenly and they come over a wide area, generally. They require immediate attention, at least deserve immediate attention, and that's not always easy to accomplish.

Nevertheless, as long as there is 1 percentage or even one person who does not get adequate service and does have to endure hardship and maybe additional expense, I believe that it's incumbent upon all of us to try to improve the process and to eliminate even small numbers of mistreatment or inadequate service.

Even though percentages look good as far as the operation of the program is concerned, when you narrow it down to individuals and to the humanitarian aspects of it, it's a major concern.

We're going to continue to try to improve processes. I know we'll have the cooperation of all the agencies. The subcommittee and the full Committee on Appropriations will want to consider very carefully the kinds of cases that have been documented here today and the problems that have been encountered, and I feel certain that from the report of this hearing will come some very positive steps, some very direct action, that hopefully will bring about an improvement in the operation of the program.

So thank you very much, and let me remind you that if there are any here who have been either reminded of something because of something they've heard presented as testimony today or who have some exceptions to take with any of the information and material that has been presented by any person, we would welcome you making a note of that and submitting it to the committee and allowing it to be included in the record of this hearing.

We're going to have a meeting this afternoon over in Paintsville and we've invited the public to come in, and I'm sure there will be many problems presented there relating to this subject. Mr. Collins has agreed to be there, too, and will help answer questions that may occur over there.

ADDITIONAL TESTIMONY

[CLERK'S NOTE: The following testimony was provided for the record:]

STATEMENT OF MELVIN H. WILSON, SECRETARY, PUBLIC PROTECTION AND REGULATION CABINET, FRANKFORT, KY

Senator Huddleston, ladies and gentlemen . . .

Thank you for inviting me here today to relate my personal experiences with the federal flood insurance program and the problems that are being encountered by the fine people of this area.

I am no stranger to Eastern Kentucky. I presently live in Central Kentucky. But, for 17 years, I resided in Pike County.

I came to this area because of a flood in 1963. I was sent here as a professional insurance adjuster at the direction of private industry to assist and to aid the victims of that flood. I gained first-hand knowledge of the tremendous suffering and the personal agony that goes with this type of disaster.

For, in 1963, there was no federal flood insurance in this area. And, I recall that I was one of a number of Kentucky adjusters sent to assist Kentucky residents in their time of need.

I came to know this area quite well because the very nature of my work took me to the heads of the hollers and the tops of the mountains.

And it was during these 17 years that I became part of the culture and I witnessed numerous floods.

In 1977, I no longer was an observer.

I became a victim.

At that point the tragedy and the suffering became very personal.

I no longer could sit in a dry house and talk about someone else's sad situation.

For it was I who was wading through the mud in my own home and in my own business. It was I who was watching a lifetime's work hauled away.

We did not have the benefit of federal flood insurance

during the '77 flood because it still had not been approved for Eastern Kentucky.

But, had we had that program, I can tell you what I would have expected ... and, YES, demanded as an insured citizen and as a taxpayer.

If I -- and the other many victims -- had had federal flood insurance, WE would have needed immediate attention and relief.

And, Senator, what the people in Bethesda, Maryland would not have realized then and do not seem to realize now is that we had no water .. no shelter .. and no food. And, in my particular case, I was forced to send my children to my mother's in Mississippi to avoid serious illness from contaminated water.

With my personal experience as an example, I think it becomes clear that quick relief is vital to the health and well-being of the people. The suffering victims deserve immediate attention from Washington. And, as YOU have said for so long, they are entitled to it. We should not -- and we must not -- wait for weeks and even months for this program to function.

It is this particular issue that I want to address today: the flood victims must receive immediate attention. It is this message that I ask you -- as you have done so many times before -- to take back to Washington, on behalf of the citizens of Kentucky.

I am not disputing the need for federal intervention during a flood. The program is needed to provide coverage for ALL flood victims.

I am suggesting, however, that major reforms be made in the program so that it can fulfill its purpose -- which is relief and aid to the people of Eastern Kentucky who have been wiped out by a flood.

I don't have all the answers. But I would like to recommend reforms that would go a long way in assisting victims of such a catastrophe.

FIRST AND FOREMOST --

I recommend that the federal government use local expertise. That means coordinating efforts with the local insurance industry, local contractors and local officials. That means KENTUCKIANS helping KENTUCKIANS instead of people from New York, Chicago and Los Angeles trying to help.

SECOND --

I recommend that the federal government use the people from the State Department of Insurance, who better understand the problems and the needs of the people. Insurance Department officials can be on-site within hours, ready and able to evaluate the situation. By working with people on a local level to evaluate the personnel needs, we can expedite the handling of the claims.

And, THIRD --

I recommend that UNIFORM claim instruction packets be furnished to victims by the local agents when the claims are filed. The assistance rendered by the local agents in completing the claim forms would go a long way in expediting payment of the claims.

Senator ...

We need help.

We need you to help, as you've done so often in the past.

And, we call on you once again.

Governor Martha Layne Collins and her Administration are committed to serving Kentuckians. We -- like yourself -- are committed to helping our neighbors recover from personal tragedy.

That is why I recommend these reforms to the federal flood insurance program ... because our neighbors deserve a better future.

Thank you. And, I commend you on calling these hearings today in an effort to help our fellow Kentuckians.

STATEMENT OF JANIE DOUGLASS, VOLUNTEER FOR FLOOD CONTROL, HARLAN, KY

I would like to thank Senator Huddleston for providing us with this opportunity to express our concerns about the National Flood Insurance Program (NFIP) and some of the problems which surfaced this spring after the May floods brought so much havoc and destruction to many of our communities. I realize that the members of this committee oversee the operations of the Federal Emergency Management Agency (FEMA) and appreciate their concern.

My past experience as director of the Harlan County Volunteers for Flood Control as well as my activities with the Kentucky Flood Control Advisory Commission (FCAC) prompts me to speak out about the NFIP. First of all, for most of us living in Eastern Kentucky and other mountainous and rural areas, the National Flood Insurance Program is the only game in town. The traditional agencies that deal with flood control such as the Corps of Engineers (COE) and Soil Conservation Service (SCS) are hampered in their efforts to reduce flooding by a number of factors.

The major consideration is the ability of any project designed for flood control to meet the benefit/cost ratio which decrees that for every dollar spent there must be at least a dollar benefit accrued. Even if a project could meet the benefit/cost ratio, the topography of the area precludes most structural solutions. There are few good dam sites because: 1) a large enough dam to provide optimum protection would cover mineral-rich land it was designed to protect; 2) the cost of acquistion would make any such dam economically unfeasible because of its coal reserves. The same holds true for floodwalls and levees which would use up most of the land that they had been designed to protect -- plus in order to give adequate production, the structure has to be so high that the protected area becomes a fortress. Non-structural measures such as relocation, flood proofing, evacuation and warning and flood insurance have not been given much priority within the Corps or SCS until recent years and are hard to calculate in the benefit/cost ratio formula. Even eliminating these considerations, the bottom line is that there is no money for such deserving flood control projects. Comprehensive water resource projects authorized by Congress have not been funded since 1976 because of the controversies surrounding many of the projects.

What all of this means is that the future of major flood control projects is very bleak -- not just in Eastern Kentucky but nationwide.

Thus we look to the National Flood Insurance Program (NFIP) as an essential component of our ability to recover from floods which continue to be the leading cause of death and property destruction in the United States today. On the average, 200 lives are lost each year due to flooding. More than 90% of all property damage caused by natural disasters is the result of flooding (more than $2

billion dollars per year). In this year alone, there have been over 20 presidentially-declared disasters involving floods.

The basic need for the National Flood Insurance Program should be evident but it has a long way to go before fulfilling its potential. Current attempts to make the programs self-supporting are misguided and, if not re-considered, will cause the eventual demise of the program. Continous premium increases, reduced coverage, and increased deductibles have placed flood insurance above the reach of the majority of those who need it the most.

For example, a 1981 study of Harlan completed by Booker and Associates (Harlan County Kentucky Flood Hazard Mitigation Plan) shows that of the approximate 13,413 dewellings in 1980, 3,103 structures are located in 100 year flood plain boundary, (1,005 of these in the floodway itself). Further information from the study indicates that as of November 30, 1980 there were 2,206 flood insurance policies in effect with nearly $60 million in coverage. As of May 31, 1983 there were 1,660 policies with coverage of $53 million -- a drop in the total number of 540 policies, but only a $7 million drop in coverage which would indicate that those who retained their policies maintained the same level or increased their level of coverage, while those with minimum coverage were not able to retain their policies. This same study indicates that only 9.3% of the total county land area has a slope of 20° or less. Furthermore 8.8% of this 9.3% located within the 100 year floodplain has buildable slopes less than 14°. This means only .5% of land in the county is level enough to build on and is out of the floodplain. This combined with the fact that nearly three fourths of the county (74%) contains slopes of 50° or greater limits development to narrow floodplain valleys.

These Harlan County statistics are significant because they point out the problems created by development pressures where there is limited availability of land outside the floodplain for new development. This factor is compounded by the improbability of providing any degree of flood protection for existing structures already in the floodplain through prevailing program policies and authorities. This obviates the need for an effective flood insurance program and servicing system combined with planned growth and development in the floodplain area.

Many of the problems encountered during the claims process could be headed off by advance public relations efforts to be sure that policyholders understand their policies. Complaints about lack of notification re changes in deductible or coverage could be reduced by a more effective notification system:

a) when sending renewal notices, include the amount of the deductible on the statement along with other basic policy information pertinent to that particular policyholder such as amount of coverage location, expiration date, rate,etc.

b) the amount of deductible should also be shown on the policy

itself to eliminate confusion along with coverage amounts, expiration date, location and premium amount.

c) a personalized letter should be sent either with the renewal notice or at the time of the policy change to the policyholder to explain policy changes that have occurred since the last premium notice. Explain in the vernacular--not small print on a flyer that defies the layman's ability to interpret its impact on his coverage.

d) a bright-colored sticker should be attached to the premium notice and/or the policy referring briefly to changes in the policy relative to coverage. Also include a flyer designed to catch the eye that explains in more detail how, for example, an optional deductible can help the policyholder afford to hold on to his insurance. Use clear everyday examples to demonstrate the point.

When such large scale disasters happen, I'm sure it's difficult to obtain enough adjusters and presumably FEMA is already looking into encouraging the certification of local adjusters to ease the shortage. Perhaps when assigning adjusters by order of request, it would also expedite service to assign by neighborhood or region as well.

Basically, the major problem is one of education -- local governments, insurors, financial institutions and ultimately the floodplain residents are not concerned with flood insurance until a flood occurs. In order to take advantage of the community's undivided attention at such a time, FEMA should dispatch a public information team as soon as possible after the disaster has occurred. The team's main purpose would be education. The majority of the team should be comprised of local floodplain residents and insurance agents. FEMA and other agencies should be available on a training/consultant basis only. FEMA could enlist the aid of already existing community groups such as extension agents, conservation districts, or service and professional groups to sponsor speakers. Trained volunteer's could visit flood victims on a one-to-one basis at their homes to talk about what they can do to help themselves--whether its help in filling out I.R.S. forms, insurance claims or floodproofing their homes as they rebuild. Radio and T.V. talk shows as well as newspaper articles could be utilized, stressing positive preventative actions that residents could take today that could prevent another disastrous flood.

Care should be exercised to avoid interference with clean-up operations. However, possible suggestions regarding ways to salvage flooded homes and furniture, or elevate the home during this process would be timely if done in an appropriate manner by owner's insurance agent or neighbor for example. In order to perform the type of training necessary to use volunteer groups FEMA needs to develop a training program and material. In addition to technical assistance, funding for expenses incurred would seem reasonable.

It would be useful for a team leader from the group to be assigned to work with the Hazard Mitigation Team (HMT). Once the HMT leaves the area and submits its follow-up reports, there would be a local connection to effectively enlist the cooperation of the community and its floodplain residents in implementing the plan. It is vitally important that FEMA and the other Federal and state agencies involved accept local groups and representatives as equal and valid partners in solving the problem.

To frequently, there is an adversarial relationship between FEMA and the local people. It is essential that the state and Federal agencies involved cooperate with local insurors and floodplain residents. Employees who can't or won't adopt this philosophy should be reassigned to duties that would not involve public communications skills. A simple example of the problems that can arise from this attitude is the tendency to speak in bureaucratese which is bewildering at the best of times but during times of disaster is inexcusable. Speak the vernacular.

In fact, the major key to all of the problems facing the NFIP is local involvement in the decision-making process. FEMA has a continuing education conference each fall to keep states informed as to current issues and policies affecting the Flood Insurance Program. This is an effective way to keep states involved and up-to-date, but that is where the information flow usually stops. Perhaps the states and FEMA should coordinate a similar workshop with continuing education credit for those involved on the local level, such as insurors, realtors, financial institutions and local governments to discuss current policy and to solicit local input. An agent certification program with a minimum of continuing education credits would encourage participation in such workshops. If a workshop on just flood insurance doesn't seem a likely drawing card, professional state, regional or national associations have workshops and displays which could be used for presentations at their annual meetings. Monthly up-date columns could be provided for the various trade journals. To reach the consumer/floodplain residents, make use of club newsletters -- Kiwanis, Women Clubs, Jayceess -- to bring about the community exchange and acceptance so necessary to the NFIP and floodplain management.

Another aspect of communication that cannot be overlooked is the need for interagency and intra-agency cooperation and coordination. Regional representatives are the middlemen within the agency and are frequently bypassed by both Federal and state representatives. Just because you're a state representative doesn't mean the region passes on the necessary information and, of course, those in the Washington main office are only responsible for making policy -- not getting it out to the users at any level.

There should be two formal advisory groups to review all FEMA programs. One task force could be appointed as soon as possible to work with state, regional and Federal agencies to improve delivery of the flood insurance program. It should be comprised of

no more than fifteen to twenty individuals representing floodplain residents/consumers,professionals from insurance fields and whatever other related fields are pertinent to provide the necessary input. After all, it's the local folks who are being flooded -- both by water and red tape.

A second advisory group to work with FEMA should speak to the broader range of national issues that have caused the program to loose credibility and effectiviness on addressing flood problems. Again the majority of this group should be made up of the consumers -- the local floodplain residents. It should also be comprised of representatives from professional groups such as the Association of State Flood Plain Managers (ASFPM), the American Society of Appraisers, USAA and Prudential (or similar professional groups) to provide the expertise and technical assistance required to evaluate such a complex program. Several groups such as the ASFPM have been working with FEMA on an informal basis. However, there needs to be a formal, structured avenue of approach with the assurance of being heard in the right places by the right people.

Areas of concern that need to be addressed by the consumer advisory group include:

1) premium increases and community rating systems which would allow for premium reductions for communities or individuals that demonstrate effective flood fighting measures that would lessen the number and amount of claims in the event of another flood.

2) decreased coverage with possible riders/waivers to include or exclude certain items as well as the optional deductible

3) consistent and equitable policy terms and definitions with timely and appropriate notification of policy changes.

4) continuation of funding for State Assistances Programs or similar programs to make funding available to states and local communities to maintain a continuing education/public relations/ technical assistance effort.

5) creation of a flood hazard mitigation fund to provide some financial incentives in the form of low interest loans for state and local emergency preparedness and building protection programs by returning a percentage of NFIP premiums to the state in which they originate.

6) clarification and resolution of mapping inadequacies to provide a working tool for local administrators and still meet the needs of the floodplain residents as well as the insurors and financial institutions.

7) elimination of emergency phase and the increased use of special conversions to enable communities to enter the program while at the same time providing the community with the necessary data base and tools to maintain their eligibility to stay in the program.

To illustrate just how one of these issues impacts on the amount and number of claims serviced by the NFIP, it may be helpful to look at just one aspect of some of the mapping inadequacies that need to be addressed.

In an on-going study conducted by Kusler and Bloomgren on Improvingthe effectiveness of Floodplain Management in High Risk Areas, it is pointed out that relying on the mapping "norms" have led to understated hazard risk analysis in certain areas. Use of such a norm fails to provide realistic planning and regulatory goals. Insurance in such instances does not reflect the actual risk thus increasing losses while at the same time inadvertently encouraging development.

A preliminary report of the Interagency Flood Hazard Mitigation Team on the May 1984 flooding in Southeastern Kentucky indicates that over one third (37.6%) of the structures reporting flood damage in Harlan County were located outside of identified flood hazard areas. Harlan County has been in the regular phase of the NFIP since 1978 and has the required maps and studies. Yet the special problem areas which have the largest potential for flood loss from flash flooding have not been adequately identified and residents have been given a false sense of security from existing maps used by the regulatory agencies and insurance agents.

This is but one aspect of the many concerns expressed by those who must use the FBFM's or FIRM's. The differing requirements of the floodplain residents, the engineers, administrators, insurance agents and financial agents must be reconciled. (see appdx.)

FEMA's attempts to contain cost are commendable but the resulting efforts to make the program self-sufficient are not in line with the original intent of Congress when it passed the National Flood Insurance Act of 1968. The present flood insurance program is seen as ineffective, inconsistent, and too expensive for those who need it the most. The National Flood Insurance Program has the effect of saying to low income people that they have nothing of value worth protecting from floods. Since our government is founded on the premise that a government for the people and by the people is best, then those most affected should be involved in how they are governed.

RESOLUTION 1984-1, High Risk Areas. Whereas, the Association of State Floodplain Managers has completed preliminary work to identify high risk areas and analyze the status of floodplain management for these areas; and

Whereas, simplifying assumptions for floodplain management made by federal agencies, states and local governments in the late 1960's have resulted in serious understatement of hazards in 20-30% of the nation's floodplains; and

Whereas, these simplifying assumptions include (1) flood stage is the only damage factor; (2) only clear water flooding occurs; and (3) the channel (or shoreline) configuration is stable; and

Whereas, these simplifying assumptions, while necessary at the time, failed to consider (1) velocity; (2) debris in the water (ice, rocks, trees, etc.); (3) rapidity and duration of flooding; and (4) erosion and other changes in the flood channel; and

Whereas, as a result of these assumptions, flood mapping, regulatory standards, and insurance rating are inadequate for a significant portion of the nation's floodplains; and

Whereas, failure to correctly map and regulate high risk areas without consideration of additional risk and loss potential is causing and will cause an escalation of insurance claims and disaster losses; and

Whereas, growth potential is high in areas such as barrier islands (e.g., much of the developed gulf and Atlantic coastline), subsidence (e.g., New Orleans and Houston-Galveston), alluvial fans (30% of the arid southwest and Colorado), and mud floods (California coast and the Wasatch Front); and

Whereas, increased market penetration for flood insurance in high risk areas will likely lead to massive increase in losses (out of proportion to premiums) in high growth areas such as Los Angeles County, Clark County, New Orleans, Houston-Galveston, Denver and Salt Lake unless insurance premiums and land management standards are adjusted to reflect the special risks; and

Whereas, the state of knowledge with regard to mapping and management of high risk areas has progressed sufficiently in the last 15 years to permit a variety of low-cost actions to reduce losses including mapping as part of remaining map studies and remapping, upgraded land management, and increased insurance rates; and

Whereas, there are continued methodological problems which need research and field testing.

NOW, THEREFORE, the Association of State Floodplain Managers recommends:

That FEMA, in cooperation with other federal agencies and states,

1. Develop a national policy for addressing areas where special risk factors (velocity, debris, unstable channel) pose significant threats to life and property;

2. That such a policy supplement rather than replace existing policies pertaining to flood stage.

3. That an Interagency Task Force should be established to develop this policy with Association assistance.

4. That such a policy would not only recognize the importance of such areas but set forth a process to develop improved maps, land management standards, actuarially-sound insurance policies, and post-disaster mitigation plans and guidelines.

5. That such a policy should be based upon further research and investigations that will: (a) Examine, in depth, disaster payments and insurance claims for high risk areas to determine the magnitude of existing losses; (b) Determine growth potential in these areas (using the Donnelly study and other approaches) and future damage potential including potential losses due to increased flood insurance penetration; (c) Determine the effectiveness of land management techniques in such areas (e.g., elevation on pilings vs. elevation on fill) and needed improvement through post-disaster surveys and laboratory modelling; and (d) Determine cost-effective combined approaches for individual types of areas including mapping, land management standards, insurance etc., through demonstration projects. These might be best initiated in communities and states in need of immediate assistance and willing to assist in these efforts. NOTE: This Resolution has been adopted in draft form; it is not final.

RESOLUTION 1984-2, Map Format. Whereas, the Association of State Floodplain Managers (ASFPM) represents floodplain management interests in the United States of America; and

Whereas, the goals of the National Flood Insurance Program (NFIP) can only be achieved through effective floodplain management; and

Whereas, the ASFPM, in that capacity, participated in the Mapping Initiatives Project; and

Whereas, the ASFPM has solicited the opinions of nearly 400 individuals representing appraisers, realtors, engineers, insurance agents, local officials, planners, state officials, lenders, and other individuals interested in and knowledgeable about the NFIP regarding the format of maps produced by FEMA for floodplain management and flood insurance purposes; and

Whereas, the acceptance of the National Flood Insurance Program at the local level is measured by the credibility of the maps to depict the floodplain.

NOW, THEREFORE, BE IT RESOLVED, the ASFPM recommends to FEMA that for all future maps and revisions to maps (1) Floodplain and floodway limits be drawn to follow the contours of the land (curvilinear); and (2) Areas outside the jurisdictional boundaries of the community being studied be included; and (3) All available cultural and topographic information be included on the maps; and (4) Township, range and section lines be included in unincorporated areas where such lines have been established; and (5) The scale of the maps be no less than 1"=1000' for rural areas and no less that 1"=400' for urban areas; and (6) Floodway areas should be shaded to be distinguishable from the flood fringe and areas outside the floodplain; and (7) Cross sections used in the study should be shown and flood elevations at those cross sections should be noted on the map face; and (8) That only one map be published for both floodplain management and flood insurance purposes, OR if the existing two-map format is to be continued, that administrative systems be established so that any changes to either map results in a revision of both maps and that equal numbers of each type of map be prepared and kept available for distribution to all individuals who use these maps for either floodplain management or flood insurance reasons. The two maps should also be redesigned so as to be easily distinguishable from each other; however, neither map should be in rectilinear format; and (9) In all cases, the state and community should be consulted during the initial phases of the study process for their recommendations on the final map format.

A complete set of Proceedings of the June Conference will be available from the Association office.

THE FEDERAL AGENCY REPORT

FEMA STUDY & MAP INITIATIVES

Much of the following information was provided by John Gibson, Assistant Administrator for the Office of Risk Assessment, at the conference in Maine.

1. Future Flood Insurance Studies/ Donnelly Study. The study by Donnelly Marketing, Inc., to identify communities that are likely to experience growth has been completed. Of the approximately 7,000 communities remaining in the emergency phase of the NFIP, 53% are expected to experience signficiant growth, 32% are expected to remain stable, and 15% are expected to decline. Reports have been generated and sent to the regional offices identifying, by state, communities for each of the three categories.

FEMA has made a tentative list of communities that will receive a Flood Insurance Study (FIS), Limited Detail Study (LDS),. Existing Data Study (XDS) and Special Conversion (SC) based on the Donnelly Study, regional and state recommendations, and insurance policy and claims data. At this time they are planning to conduct 820 FIS, 769 LDS, 188 XDS and 5,200 SC.

FEMA is also in the process of developing plans for updating and maintaining published maps and is moving ahead to evaluate a few of the high risk areas, particularly areas protected by levees. However, their priority for the next three years will be converting the remaining emergency program communities to the Regular Program before the congressionally-mandated termination of the Emergency Program on September 30, 1987.

2. Map Initiatives Pilot Study. Approximately 30% of all responses have been evaluated by FEMA under the Map Initiatives Pilot Study. Thus far, there is considerable agreement on all but three crucial points: curvilinear vs. rectilinear; scale; and amount of detail to be shown on the maps.

Curvilinear vs. Rectilinear: The lenders and insurance agents lean heavily toward the rectilinear format (90%) while the federal, state and local officials, engineers, surveyors, and planners lean heavily in favor of the curvilinear format (90%). In total, it is very nearly a 50-50 split.

Scale: There is disagreement between the lenders/agents group and public officials/engineers/surveyors/ planners regarding scale. The great majority of lenders/agents want very small-scale maps, while public officials/engineers/surveyors/ planners want large-scale maps. It was suggested that large-scale maps could be reduced and formed into a mosaic as the community index map which could also be used by lenders and agents.

Amount of Detail: As in the other issues, there are widespread views on how much detail should be shown on the final map product. Lenders and agents preferring less detail and public officials/engineers/ surveyors/planners preferring as much information as possible.

There were a number of issues with which we all agreed: (a) the floodway should be shaded, so as to be more easily identifiable as part of the floodplain; (b) the maps should not be truncated at the community corporate limits; and (c) one map for all users would be preferable to the current two-map format (providing, of course, it is the one map each group preferred).

FEMA plans to make their final decision in time for FY 85 study starts.

CORPS OF ENGINEERS AND BELMONT PARK FIGHT BACK

A Corps of Engineers Section 205 Study has resulted in a non-structural project in the Belmont Park area of Warwick, Rhode Island, to provide protection from the 100-year flood. As part of this plan, the city will acquire 59 residential homes and relocate or demolish them. An adequate flood warning and evacuation plan will be set up for an additional 19 homes subject to basement flooding. The cleared, city-owned land will provide about 22 acres of open land for recreation and wildlife habitat. Total acquisition and relocation costs are estimated at $3.2 million. Agreement has been reached with owners to acquire 41 properties, and it is projected that all intended properties will be acquired by the end of FY 84. The project is scheduled for completion in FY 85.

NEWS & VIEWS WOULD LIKE TO REPORT YOUR DISASTERS AND THE WAY YOU HANDLE THEM. SEND DESCRIPTIONS OF THE DAMAGE, YOUR HANDLING OF THE SITUATION, PICTURES, SPECIAL PROBLEMS & TECHNIQUES OF INTEREST, ETC. WE LEARN FROM EACH OTHER!

CONCLUSION OF HEARING

Senator HUDDLESTON. So, again, thank you very much; that concludes the hearing. The subcommittee will recess and reconvene at the call of the Chair.

[Whereupon, at 12:57 p.m., Monday, July 16, the hearing was concluded and the subcommittee was recessed to reconvene at the call of the Chair.]

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